

## Auditing Procedures Report

Issued under P.A. 2 of 1986, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name City of Ann Arbor	County Washtenaw
Fiscal Year End 6/30/06	Opinion Date 10/30/06	Date Audit Report Submitted to State 12/22/06	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES ☒ NO ☐ Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☒ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☒ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:		Enclosed	Not Required (enter a brief justification)	
Financial Statements		<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations		<input checked="" type="checkbox"/>		
Other (Describe) Single Audit		<input checked="" type="checkbox"/>		
Certified Public Accountant (Firm Name) Abraham & Gaffney, P.C.		Telephone Number 517-351-6836		
Street Address 3511 Coolidge Road, Suite 100		City East Lansing	State MI	Zip 48823
Authorizing CPA Signature <i>Aaron M. Stevens</i>		Printed Name Aaron M. Stevens, CPA		License Number 1101024055

# **CITY OF ANN ARBOR**

## **COMPREHENSIVE ANNUAL FINANCIAL REPORT**

County of Washtenaw  
State of Michigan

Fiscal Year Ended June 30, 2006



Issued by:

Financial and Administrative Services-  
Accounting Services Unit  
100 N. Fifth Avenue  
Ann Arbor, Michigan 48107  
(734) 994-2730

CITY OF ANN ARBOR  
COMPREHENSIVE ANNUAL FINANCIAL REPORT

June 30, 2006

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**CITY OF ANN ARBOR, MICHIGAN**  
100 North Fifth Avenue, P.O. Box 8647, Ann Arbor, Michigan 48107

October 30, 2006

**To the Honorable Mayor, Members of the City Council  
And Citizens of the City of Ann Arbor**

The Comprehensive Annual Financial Report (CAFR) of the City of Ann Arbor for the year-end June 30, 2006, is submitted. Staff in the Accounting Services Unit prepared the report, with assistance from the Pension System, Downtown Development Authority, Housing Commission and other City staff. The City has the responsibility for all disclosure and accuracy of material contained in this report.

State law requires that all local governments, subject to certain size criteria, publish within six months of the close of each fiscal year a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the City of Ann Arbor for the fiscal year ended June 30, 2006.

This report consists of management's representations concerning the finances of the City of Ann Arbor. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, City management has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatements. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to compliment the MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the report of the independent auditors.

The CAFR is designed in a manner to assist and guide the reader in understanding its contents. The report consists of three sections:

- The Introductory Section includes the table of contents, this transmittal letter, the City's organizational chart, and a list of principal officials.
- The Financial Section includes the MD&A, the basic financial statements, required supplementary information and various other statements and schedules, as well as the independent accountants' report based on an audit of the basic financial statements.
- The Statistical Section includes selected financial and demographic information, generally presented on a multi-year basis.

## Profile of the Government

The City of Ann Arbor was founded in 1824 and incorporated as a city in 1851. The City is located in the approximate center of Washtenaw County in the southeastern section of Michigan's lower peninsula. The City is approximately 28 square miles in area and serves as the County Seat. The City has an excellent public transportation system for its citizens and visitors to enjoy. The City is nationally known for its outstanding educational and medical facilities, serving as the home of the University of Michigan.

The City operates under a Mayor/Council-Administrator type of government. The Council is comprised of the Mayor and ten Council Members. The City is divided into five wards, two Council Members are elected from each ward. The Council appoints a City Administrator to serve as the Chief Administrative Officer of the City responsible for daily operations. The organizational chart of the City is shown following the transmittal letter.

The component units discussed below are included in the City's financial reporting entity because of the significance of their operational or financial relationships with the City. In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, *"The Financial Reporting Entity,"* these financial statements present the City (the primary government) and its component units. The criteria established by the GASB for determining the reporting entity includes financial accountability and whether the financial statements would be misleading if data were not included.

**Blended Component Unit.** The Ann Arbor Building Authority is presented as a blended component unit. Commissioners of the Authority are appointed by the Mayor and confirmed by City Council. Although it is legally separate from the City, the Authority is reported as if it were part of the primary government because its sole purpose is to issue revenue bonds to finance major capital construction by the City.

**Discretely Presented Component Units.** The Component Unit columns in the government-wide financial statements include the financial data of the City's other Component Units. They are reported in separate columns to emphasize that they are legally separate from the City. The following Component Units are included in the reporting entity because the primary government is financially accountable and is able to impose its will on the organization.

Downtown Development Authority (DDA). The DDA was created to finance rehabilitation and redevelopment in the downtown area. Commissioners of the DDA are appointed by the Mayor and approved by City Council. Development plans are approved by Council and Council must approve all modifications to the plan. The City maintains some accounting and payroll records for the DDA, whose primary source of funding is from Tax Increment Financing revenues. Bonds secured by those revenues are issued by the City on behalf of the DDA, which does not have the ability to issue debt.

Ann Arbor Housing Commission. The Housing Commission was created to provide low-income housing for City residents. Commissioners of the Housing Commission are appointed by the Mayor and approved by City Council. City Council is notified of all grant applications and any changes to contracts with the Department of Housing and Urban Development, the Commission's primary funding source. The Commission maintains its own accounting records and bank accounts. The City provides limited, special purpose financial support to the Commission, subject to request and Council approval, and is contingently liable for its debt.

SmartZone Local Development Finance Authority (SmartZone LDFA). The SmartZone LDFA was established in accordance with the authority granted under Public Act 248 of 2000 respectively by the cities of Ann Arbor and Ypsilanti in June 2002 to encourage high tech business investment within the boundaries of the SmartZone, comprising portions of City of Ann Arbor and the City of Ypsilanti, and the funding of the SmartZone through a Local Development Financing Authority.

The City is responsible for managing and financing many of the services for its citizens. The service areas include: Community Services, Financial Services, Safety Services, and Public Services.

## FACTORS AFFECTING FINANCIAL CONDITIONS

The information presented in the financial statements should be considered on a broad perspective within the specific environment of the City.

### Local Economy

The City remains in good financial condition, as is demonstrated by the financial statements and schedules included in this report. As an indication of economic strength, the assessed value of the taxable property (2005) increased by 4.8% over the 2004 valuation. The City receives a portion of the tax revenue generated to assist in funding its operations.

The City provides a full range of services including: police, fire, refuse collection and disposal, recycling collection and processing, recreation, social services by contract, public improvements, planning and zoning, and general administrative services. The citizens and transients of the City enjoy these services. The City is surrounded by three higher educational centers 1) The University of Michigan, 2) Concordia College, and 3) Cleary College. Additionally, located within a 10-mile radius are two other higher educational centers. Over 69% of the residents have completed four or more years of college.

The City of Ann Arbor has the largest population base in Washtenaw County and serves as the County Seat. The U.S. Census Bureau identified 114,328 residents in Ann Arbor, representing 35% of the population base in Washtenaw County. The median household income of our citizens is \$71,293. Personal income in the City has risen in recent years, which is an indication of a healthy economy.

The City is endowed with several major corporations located within its boundaries, including Pfizer Pharmaceutical Company and Borders. In addition, Ann Arbor is home to one of the largest employers in the County, the University of Michigan, that employs 29,165 people. Ann Arbor is also known for its excellent technology infrastructure that has attracted several large technology firms to the area.

Ann Arbor is accessible by three major Interstate highways connecting Detroit to the east, Chicago to the west, the Upper Peninsula to the north, and Ohio to the south.

### Budget Process

The City Administrator is required by City Charter to prepare and submit an annual budget to City Council. This budget is prepared on the modified accrual basis and is adopted by City Council as required by the State of Michigan. Budgetary control is maintained at the service area level for the General Fund. The City Administrator is authorized to transfer budgeted amounts within the General Fund service areas. Budgetary control for all other funds is maintained at the fund level. Revisions to a service area total of the General Fund or to the fund total must be approved by City Council.

### Long-term Financial Planning

The City Council and City Administrator are committed to strategies designed to ensure the long-term financial health of the City. Facing legal and political limits on the amount of property taxes that can be levied in Ann Arbor, in 2002, the City Council provided the newly hired administrator with instructions to improve upon the cost reduction steps that began with the 2001-2002 budget cycle. From a high of 1,024 full-time equivalent (FTE) positions approved in the 1999-2000 budget, the current year fiscal plan includes only 823 FTE positions. Timely execution of current plans will have a new, centralized maintenance facility on-line in 2007 and a new Justice Annex to City Hall in place by 2010.

### Cash Management Policies and Practices

Cash balances are invested according to the City's investment policy and State law. Certain cash balances are pooled in an investment fund. The cash resources of the Pension Trust Fund and certain other funds are invested separately. Short-term investments are generally restricted to: 1) certificates of deposit; 2) commercial paper of corporations rated A-1 and P-1; 3) U.S. Treasury bills; and 4) savings accounts. U.S. Treasury notes are usually purchased with cash available for longer periods of time. Maturities are intended to correspond with cash flow needs.

For fiscal year 2006, the accounting return on investments (realized and accrued income and gains plus accretion and amortization of premiums and discounts) on the pooled investment portfolio was 3.73%. The market rate of return (which reflects market adjustments) was 3.09%.

### Risk Management

As permitted by State law, the City is self-insured (up to certain limits) for employee medical expenses, unemployment claims, general liability, and property damage. Funding for claims and insurance is provided through an Internal Service Insurance Fund. This fund receives revenues from the operating accounts. The City contracts with one provider to administer the medical program for its employees and retirees. In addition, the City contracts with one provider to administer the workers' compensation program.

### Pension and Other Post-employment Benefits

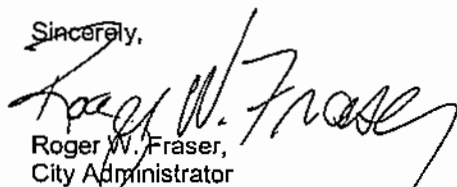
The City provides a defined benefit pension plan and post-employment healthcare benefit plan for all permanent employees. The pension system is administered by a seven member Trustee Board and an Executive Director. The net assets of the defined benefit pension plan on June 30, 2006 were \$403,270,772, and the post-employment healthcare plan was \$55,660,954. The actuarial valuation, applicable to the defined benefit pension plan, continues to reflect the plan is adequately funded at 103.7%, as of the June 30, 2005 valuation.

## AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Ann Arbor for its comprehensive annual financial report for the fiscal year ended June 30, 2005. To be awarded a certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report whose contents conform to program standards.

The City has been awarded this certificate annually since 1985. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement Program requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

Sincerely,



Roger W. Fraser,  
City Administrator



Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting

Presented to

City of Ann Arbor,  
Michigan

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2005

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



*Carol E. Perry*

President

*Jeffrey R. Egan*

Executive Director

# **CITY OF ANN ARBOR, MICHIGAN**

**John Hieftje, Mayor**

## **Council Members**

Jean Carlberg  
John Roberts  
Marcia Higgins  
Stephen Rapundalo  
Wendy A. Woods

Christopher S. Easthope  
Leigh Greden  
Robert M. Johnson  
Margie Teall  
Joan Lowenstein

## **CITY ADMINISTRATOR**

Roger W. Fraser

## **CHIEF FINANCIAL OFFICER**

Tom Crawford

## **ACCOUNTING SERVICES MANAGER**

Karen M. Lancaster

## **CITY ATTORNEY**

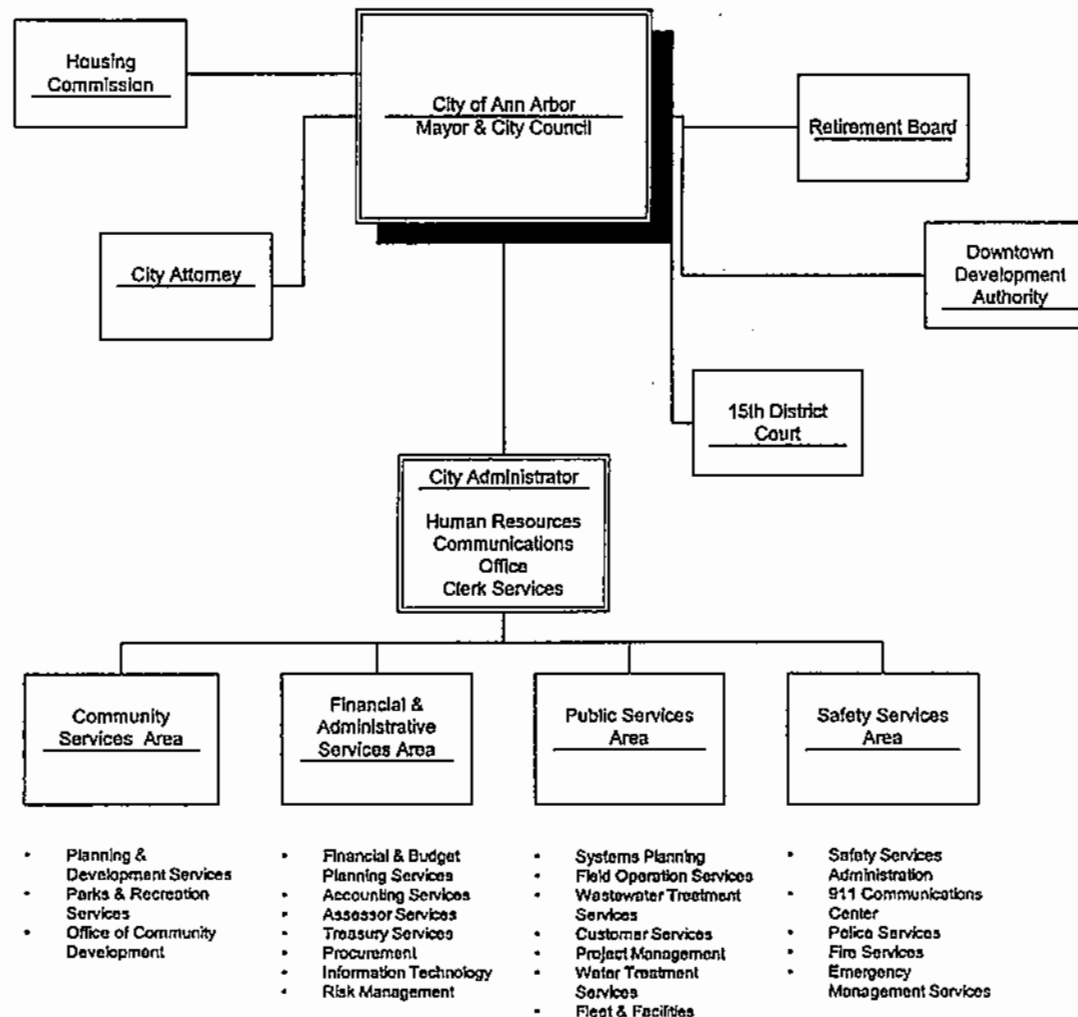
Stephen K. Postema

## **CITY TREASURER**

Matthew V. Horning

## **CITY CLERK**

Jacqueline Beaudry



Principals

Dale J. Abraham, CPA  
Michael T. Gaffney, CPA  
Steven R. Kirinovic, CPA  
Aaron M. Stevens, CPA  
Eric J. Glashouwer, CPA



**ABRAHAM & GAFFNEY, P.C.**  
Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and  
Members of the City Council  
City of Ann Arbor  
Ann Arbor, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Ann Arbor, Michigan as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Ann Arbor Housing Commission, which represents 34% and 45%, respectively of the total assets and revenues of the component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us. Our opinion expressed herein, insofar as it relates to the amounts included for the Ann Arbor Housing Commission, is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Ann Arbor, Michigan, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2006 on our consideration of the City of Ann Arbor's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information, as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Ann Arbor's basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Except for the statistical section, other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The statistical section is unaudited and we express no opinion on it.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

October 30, 2006

As management of the City of Ann Arbor, Michigan, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal years ended June 30, 2006 and June 30, 2005. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 1-4 of this report.

#### FINANCIAL HIGHLIGHTS

- The City's financial statements are prepared using two different accounting standards resulting in fund financial statements and government-wide statements.
- Government-wide financial statements are comprised of governmental activities and business-type activities. Governmental activities include General Fund activities such as Public Safety and Parks and Recreation. Business-type activities include proprietary funds such as Water, Sewer, and Solid Waste.
  - In total, the assets of the City exceed its liabilities by \$863,794,791 at the close of the most recent fiscal year.
    - \$673,383,638 is invested in Capital Assets, net of related debt;
    - \$94,538,978 is restricted for specific purposes, such as capital projects;
    - \$95,872,175 is unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors, subject to the purpose of the fund in which they are located. This balance is comprised of \$39,383,015 in governmental activities and \$56,489,160 in business-type activities.
  - The City's total net assets increased by \$36,226,967 during the year, primarily due to increases in infrastructure, investment income, charges for services, the removal of the special Emerald Ash item further discussed in Note 21, an increase in business type activities for the accumulation of capital to fund future infrastructure needs and favorable budget variances, demonstrating an improvement in the City's financial condition.
  - The City's total bonded debt increased by \$36,482,202, (new issues less retirements), during the current fiscal year.
- Fund financial statements are comprised of 38 governmental funds and 8 proprietary funds. Governmental funds include the General Fund, Maintenance Facility Fund, Open Space and Parkland Preservation Fund and other special revenue and debt service funds.
  - At the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$117,878,951. The increase in fund balance is primarily due to expenditures coming in under budget and bond proceeds for the Maintenance Facility and the Open Space and Parkland Preservation funds.
  - Of the fund balance amount, \$83,941,404 is unreserved and may be used to meet the government's ongoing obligations to citizens and creditors, subject to the purpose of the fund in which they are located.
  - The City's major funds, the General Fund (\$11,832,621), the Maintenance Facility Fund (\$4,058,954), and the Open Space and Parkland Preservation Fund (\$22,575,080) account for 46% of this unreserved balance. The remaining amount is represented across the other 35 non-major funds.
  - The General fund recognized a gain of \$1,788,338. At the end of the current fiscal year, unreserved general fund balance was 16.7% of the total general fund expenditures.
  - The Maintenance Facility Fund sold \$24,635,000 of bonds to fund the construction of the City's new maintenance facility scheduled to be completed in 2007.
  - The Open Space and Parkland Preservation Fund sold \$20,250,000 of bonds to fund the purchase of development rights to preserve open space as well as to purchase land for parks.

#### OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of a series of financial statements: 1) management discussion and analysis (this section), 2) government-wide financial statements, 3) fund financial statements, and 4) notes to the financial statements.

## GOVERNMENT-WIDE STATEMENTS

The government-wide statements are designed to provide readers with an overview of the City's financial health as a whole, similar to those used in the private-sector companies. The two components of the government-wide statements include:

- The Statement of Net Assets is the difference between assets and liabilities, which can be used as an indicator of the City's financial health, or position. This statement includes all of the City assets and liabilities.
- The Statement of Activities provides information about the City activities as a whole, as it relates to the City's revenues and expenses. The statement of activities accounts for revenues and expenses when they occur, regardless of when cash is received or paid. This statement indicates whether the City's revenues exceed its expenses, which is another way to monitor the overall health of the City.

The Statement of Net Assets and the Statement of Activities, contain information in the following three categories:

- Governmental activities - All of the City's basic services such as police, fire, public works, and general administration are included in governmental activities. Property taxes, fees and charges, state shared revenues, and state and federal grants finance most of these activities.
- Business-type activities - Business-type activity areas include water and sewer systems, parking facilities, golf courses, solid waste and an airport. The City assesses fees, taxes and charges to cover the cost of services provided in these business-type activities.
- Component units - Included in the component units for the City are the Downtown Development Authority, the Smart Zone Local Development Finance Authority and the Ann Arbor Housing Commission. Although the component units are separate legal entities, the City is financially responsible for them. The Housing Commission provides low-income housing to City residents. The City provides limited, special purpose financial support to the Commission and is contingently liable for its debt.

The government-wide statements can be located on pages 21-23 of this report.

## FUND FINANCIAL STATEMENTS

The fund financial statements provide detailed information about the City's most significant funds, not the City as a whole. The City uses the fund financial statements to account for specific funding sources and its spending patterns. Some funds are required to be established by State law and by bond covenants. The City Council establishes other funds to control and manage funds for particular purposes or to show it complies with legal requirements. The fund financial statements are divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

## Governmental funds

Most of the City's basic services are reported in the governmental funds, which focus on how cash flows in and out of those funds and its balances at year-end that are available for spending/reserve purposes. The governmental funds provide a detailed short-term view of the City's general operations and the basic services it provides. In addition, it assists management in the assessment of whether there are more or fewer resources, which can be spent on future City programs.

Because the focus of governmental funds is narrower than that of governmental-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains thirty-eight individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General, Maintenance Facility and Open Space and Parkland Preservation funds. Data from the other thirty-five governmental funds are combined in a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The basic governmental fund financial statements can be located on pages 24-29 of this report.

#### Proprietary funds

The City maintains fourteen different proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water, storm and sanitary sewer operations. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its central stores, fleet services, park services headquarters, information technology, project management, and insurance funds. Because internal funds benefit predominantly governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water, sanitary sewer operations, parking system, market, golf courses, airport, stormwater system, and solid waste, each of which are considered major funds of the City. The basic proprietary fund financial statements can be located on pages 30-34 of this report.

#### Fiduciary funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. The City is the trustee, or fiduciary, for certain assets held on behalf of others. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. Fiduciary funds combining statement information is contained in the combining section of the CAFR. The basic fiduciary fund financial statements can be located on pages 35-36 of this report.

### ADDITIONAL INFORMATION

#### Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 37-66 of this report.

#### Other information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. This is limited to the major fund budgetary comparisons and a schedule concerning the City's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on pages 67-75 of this report.

The combining statements referred to earlier in connection with non-major governmental funds and internal service funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be located on pages 79-101 of this report.



## FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

The government-wide financial analysis focuses on the net assets and changes in net assets of the City's governmental and business-type activities. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. As the following table demonstrates, the City's assets exceeded its liabilities by \$863,794,791 at June 30, 2006 compared to \$827,443,761 at June 30, 2005.

**City of Ann Arbor  
Net Assets  
Comparative Schedule- June 30, 2006 and 2005**

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total</b>	
	<b>June 30, 2006 as restated</b>	<b>June 30, 2005 as restated</b>	<b>June 30, 2006 as restated</b>	<b>June 30, 2005 as restated</b>	<b>June 30, 2006 as restated</b>	<b>June 30, 2005 as restated</b>
<b>Current and other assets</b>	\$143,434,207	\$88,689,462	\$80,361,403	\$86,639,583	\$223,795,610	\$175,329,045
<b>Capital assets</b>	640,431,489	627,330,584	194,826,523	192,152,513	835,258,012	819,483,097
<b>Total assets</b>	783,865,696	717,208,022	275,187,926	277,620,152	1,059,053,622	994,812,142
<b>Long-term liabilities outstanding</b>	75,393,801	34,203,047	92,899,493	99,047,811	168,293,294	133,250,858
<b>Other liabilities</b>	14,572,628	20,954,392	12,392,909	13,179,163	26,965,537	34,133,555
<b>Total liabilities</b>	89,966,429	55,157,439	105,292,402	112,226,974	195,258,831	167,384,413
<b>Net assets:</b>						
<b>Invested in capital assets, net of related debt</b>	575,895,851	604,868,914	97,487,787	88,812,236	673,383,638	693,681,150
<b>Restricted</b>	101,447,127	14,535,869	15,918,577	16,634,604	117,365,704	31,170,473
<b>Unrestricted</b>	16,556,289	42,852,581	56,489,160	59,863,620	73,045,449	102,716,201
<b>Total net assets</b>	<b>\$693,899,267</b>	<b>\$662,257,364</b>	<b>\$169,895,524</b>	<b>\$165,310,460</b>	<b>\$863,794,791</b>	<b>\$827,567,824</b>

By far the largest portion of the City's net assets reflects its investment in capital assets (i.e., land, buildings, vehicles, equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets at June 30, 2006 (\$94,538,978) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets of \$95,872,175 may be used to meet the government's ongoing obligations to citizens and creditors. The increase in Restricted Net Assets from \$31,170,473 in 2005 to \$94,538,978 in 2006 is due to an increase in Restricted for Capital Projects due to the sale of bonds for the new maintenance facility during 2005-2006. Certain items have been reclassified from the prior year. In addition, the balances as of July 1, 2005 have been restated as discussed in Note 20.

Long-term liabilities have increased from 2005 to 2006 mainly due to the increase in bond indebtedness due to two bond issues: the Maintenance Facility issue and the Open Space and Parkland Preservation issue. In addition, other liabilities have decreased from 2005 to 2006 due to a decrease in Estimated Claims Payable for the City's self-insurance program due to improved experience ratings. Also, the City has removed a liability of \$4.1 million for costs associated with the removal of dead and dying trees affected with Emerald Ash Borer as discussed in Note 21.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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City of Ann Arbor  
Changes in Net Assets  
Comparative Schedule for the Years Ended June 30, 2006 and 2005

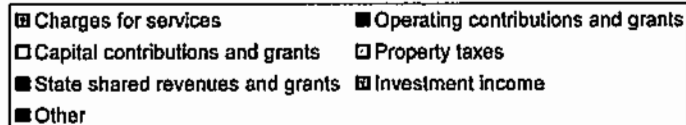
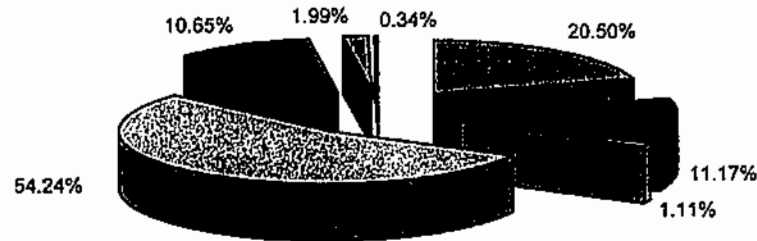
	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
<b>Revenue:</b>						
Program revenue:						
Charges for services	\$26,745,606	\$22,466,820	\$46,793,877	\$45,891,536	\$73,539,483	\$68,358,356
Operating contributions and grants	12,604,477	12,245,420			12,604,477	12,245,420
Capital contributions and grants		1,213,663				1,213,663
General revenue:						
Property taxes	62,017,866	59,452,810	10,399,700	10,011,080	72,417,566	69,463,890
State shared revenues and grants	11,469,467	11,674,762			11,469,467	11,674,762
Investment income	4,246,277	2,181,348	2,177,470	1,651,492	6,423,747	3,832,840
Other	194,410	367,458			194,410	367,458
<b>Total revenue</b>	<b>117,278,103</b>	<b>109,602,281</b>	<b>59,371,047</b>	<b>57,554,108</b>	<b>176,649,150</b>	<b>167,156,389</b>
<b>Expenses:</b>						
Governmental activities:						
General government	12,906,947	12,025,660			12,906,947	12,025,660
Public safety	44,026,682	43,656,128			44,026,682	43,656,128
Highways and streets	11,449,294	15,086,160			11,449,294	15,086,160
Culture and recreation	6,810,978	7,697,210			6,810,978	7,697,210
Social services	2,982,647	2,431,754			2,982,647	2,431,754
Transportation (payment to AATA)	8,666,141	8,349,044			8,666,141	8,349,044
Community access television	1,001,330	1,080,660			1,001,330	1,080,660
Information services		626,090				626,090
Urban redevelopment and housing	2,188,427	2,993,631			2,188,427	2,993,631
Public Services	5,227,128	7,468,543			5,227,128	7,468,543
Unallocated depreciation	71,575	37,375			71,575	37,375
Interest on long-term debt	1,539,263	934,007			1,539,263	934,007
Business-type activities:						
Water			16,881,883	16,671,468	16,881,883	16,671,468
Sewer			13,488,810	14,019,208	13,488,810	14,019,208
Parking			3,684,777	2,368,344	3,684,777	2,368,344
Market			124,754	115,892	124,754	115,892
Golf courses			1,134,301	1,152,354	1,134,301	1,152,354
Airport			904,514	860,515	904,514	860,515
Stormwater			1,556,229	1,662,144	1,556,229	1,662,144
Hydropower				259,773		259,773
Solid waste			9,876,503	8,086,147	9,876,503	8,086,147
<b>Total expenses</b>	<b>96,870,412</b>	<b>102,386,262</b>	<b>47,651,771</b>	<b>45,195,845</b>	<b>144,522,183</b>	<b>147,582,107</b>
<b>Increase in net assets before transfers and special item</b>	<b>20,407,691</b>	<b>7,216,019</b>	<b>11,719,276</b>	<b>12,358,263</b>	<b>32,126,967</b>	<b>19,574,282</b>
<b>Special item</b>	<b>4,100,000</b>				<b>4,100,000</b>	
<b>Transfers</b>	<b>7,134,212</b>	<b>1,870,457</b>	<b>(7,134,212)</b>	<b>(1,870,457)</b>		
<b>Increase in net assets</b>	<b>31,641,903</b>	<b>9,086,476</b>	<b>4,585,064</b>	<b>10,487,806</b>	<b>36,226,967</b>	<b>19,574,282</b>
<b>Net assets: beginning of year, as restated</b>	<b>662,257,364</b>	<b>652,964,107</b>	<b>165,310,460</b>	<b>154,905,372</b>	<b>827,567,824</b>	<b>807,869,479</b>
<b>Net assets: end of year</b>	<b>\$693,899,267</b>	<b>\$662,050,583</b>	<b>\$169,895,524</b>	<b>\$165,393,178</b>	<b>\$863,794,791</b>	<b>\$827,443,761</b>

The City's net assets increased by \$36,226,967 during the current fiscal year and \$19,574,282 in the prior fiscal year.

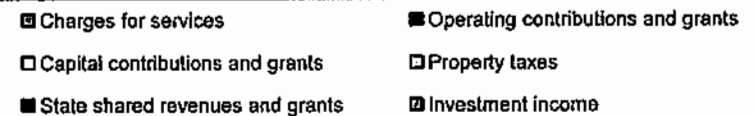
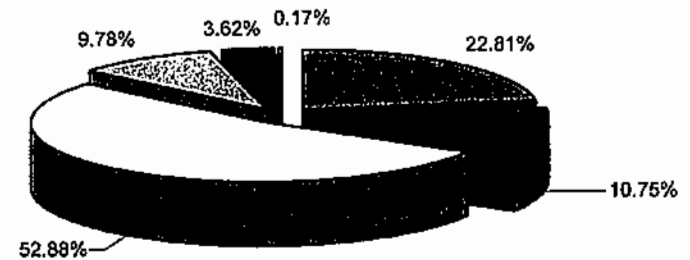
Governmental activities for the City's net assets increased by \$31,641,903, accounting for 87% of the total growth in the net assets of the City. During 2004-05, governmental activities increased by \$9,086,476 which is 46% of 2004-05 of the total growth. Key elements are as follows:

- Property taxes increased by approximately 4.3% in 2005-06 in governmental activities and decreased 7.4% in 2004-05. The increase is attributable to increased taxable values and residential growth. Most of this decrease in the prior year is due to moving solid waste activities to an enterprise fund for fiscal year 04-05.
- Intergovernmental revenue (which is a combination of operating contributions and grants and state-shared revenues and grants) remained flat in 2005-06 while increasing 6.4% in 2004-2005. This increase was due to the receipt of a \$659,000 state grant in 2004-2005 for the improvements in Dolph Park in the City. State shared revenue, primarily sales and use tax and income tax, decreased 1.86% in 2005-06 due to reductions of revenue sharing at the State level. In 2004-05, these revenues decreased by approximately 1.61% for the same reasons.
- Charges for services increased by 19% in 2005-2006 primarily due to an unanticipated state shared revenue related to fire protection, and an increase in the pension transfers to cover retiree health care benefits.
- Investment income increased approximately 95% in 2005-06, due to a more favorable interest rate environment for Federal securities and a larger invested balance. In 2004-05 investment income increased 140%, due to a more favorable interest rate environment for Federal securities.

**Revenues by Source - Governmental Activities-2005**



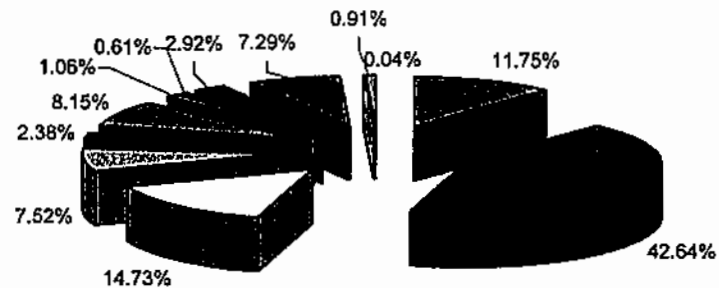
**Revenues by Source - Governmental Activities-2006**



Expenses for governmental activities decreased \$5,515,850 from 2005 to 2006. Key elements are as follows:

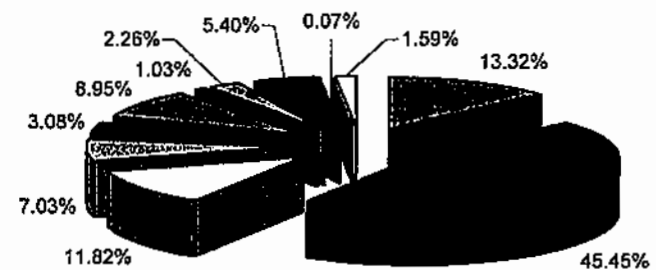
- Expenditures related to the Highway and Street activities decreased \$3.6 million due to the timing of capital projects and the completion of major projects in the prior fiscal year.
- Expenditures related to Urban Redevelopment and Housing activities decreased due to less activity related to single family rehab services and other community development activities.

**Expenses by Function - Governmental Activities-2005**



General government	Public safety
Highways and streets	Solid waste
Culture and recreation	Social services
Transportation	Community access TV
Information services	Urban redevelopment and housing
Unallocated depreciation	Interest on long-term debt

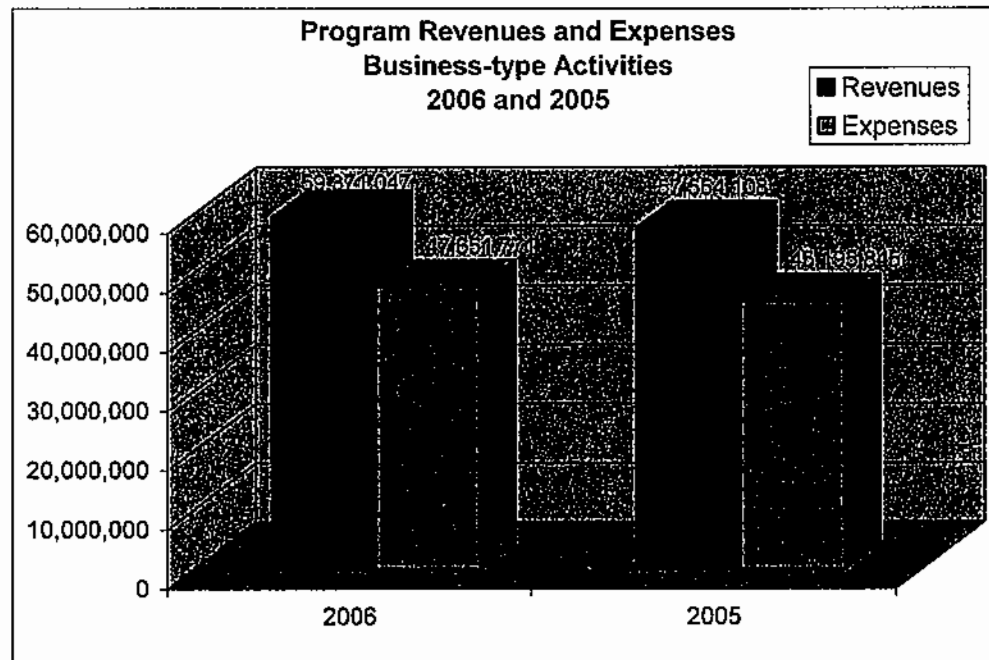
**Expenses by Function - Governmental Activities-2006**



General government	Public safety
Highways and streets	Culture and recreation
Social services	Transportation (payment to AATA)
Community access television	Urban redevelopment and housing
Public Services	Unallocated depreciation
Interest on long-term debt	

**Business-type activities.** Business-type activities increased the City's net assets by \$4,585,064 for 2005-2006 and by \$10,487,806 for 2004-2005, accounting for 13% and 54% of the total growth in the government's net assets for the current year and prior year, respectively. Key elements of this increase are as follows:

- Charges for services for business-type activities have increased by \$902,341, or 2%, in the current year, primarily due to increased water and sewer revenues. In 2004-05, charges for services increased by \$5,188,875, or 12.75% compared to the prior year.
- Expenses increased \$2,455,926, or 5.4%, in 2005-2006 primarily due to increased payroll, healthcare and utility costs. In 2004-2005, expenses increased \$8,269,694, or 22.4%, primarily due to the Solid Waste activity moving to a business-type activity.
- Investment income increased \$525,978 due to a more favorable interest rate environment and a larger invested balance. In 2004-05, investment income increased \$1,347,360 compared to the prior fiscal year due to a more favorable interest rate environment.



#### Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$117,878,951 at June 30, 2006 versus \$66,344,745 at June 30, 2005, an increase of \$51,534,206 in 2005-2006 compared to an increase of \$4,104,690 in 2004-2005. Of that amount, \$26,023,938 at June 30, 2006 and \$58,013,879 at June 30, 2005 constitutes unreserved fund balance, which is available for spending at the government's discretion.

The General fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the general fund was \$11,962,837 at June 30, 2006 versus \$9,740,289 at June 30, 2005, while total fund balance was \$12,448,705 and \$10,660,367 at June 30, 2006 and 2005, respectively. As a measure of the general fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. Unreserved fund balance represents 16.7 percent at June 30, 2006 and 12.7 percent at June 30, 2005 of total general fund expenditures. The fund balance of the City's general fund increased by \$1,788,338 during the current fiscal year in comparison to an increase of \$1,196,853 during the prior fiscal year. For 2005-06, this is attributable to both cost savings and higher than expected revenues for state-shared revenue and investment income. For 2004-05, this is attributable to both cost savings and higher than expected revenues for state-shared revenue and investment income.

With respect to other governmental funds, the City added two new special revenue funds at the start of the fiscal year- the Parks Memorials and Contributions Fund and the Local Forfeiture fund. The Parks Memorials and Contributions fund is used to account for the proceeds of various contributions to the Parks System to erect memorials or finance special park improvement projects. The Local Forfeiture Fund is used to account for monies received as a result of police seizures from non-federal investigations. These monies are restricted for use in future law enforcement activities.

Proprietary funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the water, sanitary, storm sewer, parking system, market, golf courses, solid waste and airport, at the end of the year amounted to \$56,489,160. The water, market, sanitary, solid waste and stormwater systems, and golf courses had an increase in net assets for the year of \$5,619,601, whereas, the parking and airport funds had a decrease of \$720,295. In addition, the Hydroelectric Power System Fund was closed to the General Fund during the year and reflected a decrease of \$314,242. Other factors concerning the finances of these funds have been addressed in the discussion of the City's business-type activities.

#### General Fund Budgetary Highlights

Differences between the original and final budgets for expenditures resulted in a 2.3% decrease in 2005-06 compared to a 0.8% increase in 2004-05. The General Fund revenues exceeded its expenditures by \$1,788,338.

#### Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for its governmental/business-type activities as of June 30, 2006 was \$835,258,012 compared to \$819,343,002 at June 30, 2005 (net of accumulated depreciation). This investment in capital assets includes land, buildings, infrastructure, improvements, machinery and equipment and construction in progress. The total increase in the City's investment in capital assets for the current fiscal year was 1.94% compared to 2.39% in 2004-2005. Major capital asset events during the fiscal year 2006 included a variety of street construction projects costing \$7,827,100.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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Additional information on the City's capital assets can be located in note 7 on pages 51-52 of this report.

## City of Ann Arbor's Capital Assets (net of depreciation)

	Governmental Activities		Business-type Activities		Total	
	2006 as restated	2005 as restated	2006 as restated	2005 as restated	2006 as restated	2005 as restated
Land	\$29,041,413	\$24,340,135	\$7,374,728	\$7,374,728	\$36,416,141	\$31,714,863
Construction in progress	10,596,780	4,693,766	33,521,752	28,960,164	44,118,532	33,653,930
Buildings	22,299,050	21,752,843	109,059,691	109,598,841	131,358,741	131,351,684
Leasehold improvements	8,646	8,646			8,646	8,646
Improvements other than buildings	8,678,590	8,061,568	138,297,028	137,399,177	146,975,618	145,460,745
Machinery and equipment	15,707,758	14,423,868	35,614,491	35,427,841	51,322,249	49,851,709
Vehicles	11,116,129	11,232,742	8,014,439	7,644,186	19,130,568	18,876,928
Infrastructure	666,756,085	660,414,878			666,756,085	660,414,878
Less: accumulated depreciation	(123,772,962)	(117,597,862)	(137,055,606)	(132,997,762)	(260,828,568)	(250,595,624)
<b>Total capital assets net of depreciation</b>	<b>\$640,431,489</b>	<b>\$627,330,584</b>	<b>\$194,826,523</b>	<b>\$193,407,175</b>	<b>\$835,258,012</b>	<b>\$820,737,759</b>

Long-term debt. At the end of the current fiscal year, the City had total bonded debt outstanding of \$160,685,693. Of that amount, \$93,935,693 comprises debt backed by the full faith and credit of the City. The remainder of the City's debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds). Additional information on the City's long-term debt can be found on pages 55-59.

## City of Ann Arbor's Outstanding Debt

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Capital Projects Bonds	\$35,411,122	\$12,760,000			\$35,411,122	\$12,760,000
General Obligation Portion of Special Assessment Bonds	756,509	895,000			756,509	895,000
General Obligation Portion of Special Revenue Bonds	23,707,775	3,790,000			23,707,775	3,790,000
General Obligation Portion of Special Revenue Bonds (DDA)	5,283,558	6,399,450			5,283,558	6,399,450
Special Assessment Bonds	1,160,232	1,530,000			1,160,232	1,530,000
Ann Arbor Building Authority Bonds			26,555,000	28,270,000	26,555,000	28,270,000
Other Bonds			1,061,497	1,405,550	1,061,497	1,405,550
Revenue Bonds			66,750,000	71,405,000	66,750,000	71,405,000
Other Long-term Debt	3,500,000	3,548,050	2,972,239	672,680	6,472,239	4,220,730
<b>Total outstanding debt</b>	<b>\$69,819,196</b>	<b>\$28,922,500</b>	<b>\$97,338,736</b>	<b>\$101,753,230</b>	<b>\$167,157,932</b>	<b>\$130,675,730</b>

The City's total debt increased by \$34,537,792 or 26.4 percent during the fiscal year. The City issued new debt during the year as follows:

New Bonds

- |   |               |
|---|---------------|
| • 2005-A Ann Arbor Building Authority Refunding | \$ 13,305,000 |
| • 2005 Open Space Bonds                         | 20,250,000    |
| • 2006 Maintenance Facility Bonds               | 24,635,000    |

The City has an AAA rating on these bonds from Standard & Poor's. Moody's rated these issues at an Aaa. These issuances were insured.

State statutes limit the amount of the general obligation debt a governmental entity may issue to 10 percent of its total assessed valuation. The current debt limitation for the City is \$422,074,836, which is significantly in excess of the City's outstanding general obligation debt.

Additional information on the City's long-term debt can be located in note 9 of this report.

**Economic Factors and Next Year's Budgets and Rates**

The following factors were considered in preparing the City's budget for fiscal year 2006-07:

- Property tax revenues are budgeted to increase 4 percent in fiscal year 2006-07.
- Average salary costs were projected to remain flat in fiscal year 2006-07.
- Healthcare costs were projected to remain flat in fiscal year 2006-07, due to changes to the existing healthcare plan structure.

**Contacting the City's Financial Management**

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report, requests for additional financial information or complete financial statements of the individual Component Units should be addressed to the City of Ann Arbor Financial and Administrative Services-Accounting Services, 100 North Fifth Avenue, P.O. Box 8647, Ann Arbor, Michigan 48107-8647.



# MANAGEMENT'S DISCUSSION AND ANALYSIS

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Additional information on the City's capital assets can be located in note 7 on pages 51-52 of this report.

## City of Ann Arbor's Capital Assets (net of depreciation)

	Governmental Activities		Business-type Activities		Total	
	2006 as restated	2005 as restated	2006 as restated	2005 as restated	2006 as restated	2005 as restated
Land	\$29,041,413	\$24,340,135	\$7,374,728	\$7,374,728	\$36,416,141	\$31,714,863
Construction in progress	10,596,780	4,693,766	33,521,752	28,960,164	44,118,532	33,653,930
Buildings	22,299,050	21,752,843	109,059,691	109,598,841	131,358,741	131,351,684
Leasehold improvements	8,646	8,646			8,646	8,646
Improvements other than buildings	8,678,590	8,061,568	138,297,028	137,399,177	146,975,618	145,460,745
Machinery and equipment	15,707,758	14,423,868	35,614,491	35,427,841	51,322,249	49,851,709
Vehicles	11,116,129	11,232,742	8,014,439	7,644,186	19,130,568	18,876,928
Infrastructure	666,756,085	660,414,878			666,756,085	660,414,878
Less: accumulated depreciation	(123,772,962)	(117,597,862)	(137,055,606)	(132,997,762)	(260,828,568)	(250,595,624)
<b>Total capital assets net of depreciation</b>	<b>\$640,431,489</b>	<b>\$627,330,584</b>	<b>\$194,826,523</b>	<b>\$193,407,175</b>	<b>\$835,258,012</b>	<b>\$820,737,759</b>

Long-term debt. At the end of the current fiscal year, the City had total bonded debt outstanding of \$160,685,693. Of that amount, \$93,935,693 comprises debt backed by the full faith and credit of the City. The remainder of the City's debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds). Additional information on the City's long-term debt can be found on pages 55-59.

## City of Ann Arbor's Outstanding Debt

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Capital Projects Bonds	\$35,411,122	\$12,760,000			\$35,411,122	\$12,760,000
General Obligation Portion of Special Assessment Bonds	756,509	895,000			756,509	895,000
General Obligation Portion of Special Revenue Bonds	23,707,775	3,790,000			23,707,775	3,790,000
General Obligation Portion of Special Revenue Bonds (DDA)	5,283,558	6,399,450			5,283,558	6,399,450
Special Assessment Bonds	1,160,232	1,530,000			1,160,232	1,530,000
Ann Arbor Building Authority Bonds			26,555,000	28,270,000	26,555,000	28,270,000
Other Bonds			1,061,497	1,405,550	1,061,497	1,405,550
Revenue Bonds			66,750,000	71,405,000	66,750,000	71,405,000
Other Long-term Debt	3,500,000	3,548,050	2,972,239	672,680	6,472,239	4,220,730
<b>Total outstanding debt</b>	<b>\$69,819,196</b>	<b>\$28,922,500</b>	<b>\$97,338,736</b>	<b>\$101,753,230</b>	<b>\$167,157,932</b>	<b>\$130,675,730</b>

The City's total debt increased by \$34,537,792 or 26.4 percent during the fiscal year. The City issued new debt during the year as follows:

New Bonds

• 2005-A Ann Arbor Building Authority Refunding	\$ 13,305,000
• 2005 Open Space Bonds	20,250,000
• 2006 Maintenance Facility Bonds	24,635,000

The City has an AAA rating on these bonds from Standard & Poor's. Moody's rated these issues at an Aaa. These issuances were insured.

State statutes limit the amount of the general obligation debt a governmental entity may issue to 10 percent of its total assessed valuation. The current debt limitation for the City is \$422,074,836, which is significantly in excess of the City's outstanding general obligation debt.

Additional information on the City's long-term debt can be located in note 9 of this report.

**Economic Factors and Next Year's Budgets and Rates**

The following factors were considered in preparing the City's budget for fiscal year 2006-07:

- Property tax revenues are budgeted to increase 4 percent in fiscal year 2006-07.
- Average salary costs were projected to remain flat in fiscal year 2006-07.
- Healthcare costs were projected to remain flat in fiscal year 2006-07, due to changes to the existing healthcare plan structure.

**Contacting the City's Financial Management**

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report, requests for additional financial information or complete financial statements of the individual Component Units should be addressed to the City of Ann Arbor Financial and Administrative Services-Accounting Services, 100 North Fifth Avenue, P.O. Box 8647, Ann Arbor, Michigan 48107-8647.

CITY OF ANN ARBOR  
STATEMENT OF NET ASSETS  
June 30, 2008

ASSETS	Primary Government			Component Units		
	Governmental Activities	Business-type Activities	Total	Ann Arbor Housing Commission	Smart Zone Local Development Finance Authority	Downtown Development Authority
Cash	\$4,030,726	\$4,710,102	\$8,740,828	\$1,428,326		\$130,000
Cash with fiscal agents		2,104,802	2,104,802			
Cash and cash equivalents, held at County of Washtenaw		3,882	3,882			
Equity in pooled cash and Investments (Note 4)	65,367,516	50,842,295	136,209,810		283,958	95,255
Investments, at fair value (Note 4)	45,360,551	11,942,970	57,303,521			18,082,405
Receivables:						
Taxes	457,571		457,571			6,707
Accounts	2,258,305	8,214,541	11,470,846	55,059		350,947
Special assessments	611,027		611,027			
Accrued interest and dividends	134,088	77,267	211,355			
Improvement charges	11,488	628,601	640,089			
Loans	918,529		918,529			
Unbilled district costs	167,423		167,423			
Less: Allowance for uncollectibles	(1,065,318)	(115,757)	(1,181,075)	(5,000)		
Internal balances	647,131	(647,131)				
Due from other governments	1,830,840		1,830,840			67,771
Prepaid items	1,888,321	9,631	1,895,952			5,088
Deferred charges		1,038,159	1,038,159	37,403		
Inventory, at cost	800,010	552,041	1,352,051	9,855		
Capital assets, at cost (Note 7):						
Land	29,041,413	7,374,728	36,416,141	844,637		
Buildings	22,299,050	109,059,691	131,358,741	18,581,863		
Improvements other than buildings	8,678,590	138,297,028	146,975,618			
Leasehold improvements	8,648		8,648	120,446		
Machinery, equipment, and vehicles	15,707,758	35,614,491	51,322,249	339,173		
Vehicles	11,116,129	8,014,439	19,130,568			
Infrastructure	688,758,085		688,758,085			
Less: Accumulated depreciation	(123,772,962)	(137,055,606)	(260,828,568)	(11,591,810)		
Construction in progress	10,596,780	33,521,752	44,118,532			
<b>Total Assets</b>	<b>783,885,696</b>	<b>275,187,926</b>	<b>1,059,053,622</b>	<b>9,819,952</b>	<b>283,958</b>	<b>18,718,153</b>

CITY OF ANN ARBOR  
STATEMENT OF NET ASSETS  
June 30, 2008  
(Concluded)

	Primary Government			Component Units		
	Governmental Activities	Business-type Activities	Total	Ann Arbor Housing Commission	Smart Zone Local Development Finance Authority	Downtown Development Authority
LIABILITIES						
Liabilities:						
Accounts payable	\$4,197,429	\$2,171,090	\$6,368,519	\$84,566	\$68,500	\$577,931
Estimated claims payable (Note 11)	2,635,056		2,635,056			
Accrued liabilities	1,706,030	1,079,743	2,785,773	94,282	93,197	358,343
Accrued interest payable	584,446	1,453,899	2,038,345			71,346
Due to other governments	844,051		844,051	185,453		91,327
Deposits	1,338,921	306,876	1,645,799	132,339		
Unearned revenue				74,240		
Non-current liabilities (Note 9):						
Due within one year:						
Accrued compensated absences	958,645	167,230	1,125,875			
Bonds payable	2,008,050	6,889,053	8,897,103			1,120,613
Special assessment debt with governmental commitment	500,000		500,000			
Other debt payable		315,016	315,016			
Due in more than one year (Note 9):						
Accrued compensated absences	13,366,213	2,774,826	16,141,039			
Bonds payable	57,110,847	87,487,444	144,598,291			4,182,890
Special assessment debt with governmental commitment	1,416,741		1,416,741			
Other debt payable	3,500,000	2,657,223	6,157,223			
Total Liabilities	89,966,429	105,292,402	195,258,831	550,880	159,897	6,412,450
NET ASSETS						
Invested in Capital Assets, net of related debt	575,895,851	97,487,787	673,383,638	8,294,309		
Restricted for:						
Capital Projects	40,050,749	9,638,506	49,689,255			
Debt Service	1,375,412	6,120,739	7,496,151			
Endowment (non-expendable)	2,103,500		2,103,500			
Other purposes (Note 19)	57,917,466		57,917,466			
Landfill		161,332	161,332			
Unrestricted	16,556,289	58,489,160	73,045,449	974,763	104,281	12,305,703
Total Net Assets	\$893,899,267	\$169,895,524	\$883,794,791	\$9,269,072	\$104,281	\$12,305,703

The accompanying notes are an integral part of the financial statements.

CITY OF ANN ARBOR  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2006

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets					
	Expenses	Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants	Governmental Activities	Primary Government Business-Type Activities	Total	Ann Arbor Housing Commission	Smart Zone Local Development Finance Authority	Downtown Development Authority
Primary Government:										
Governmental activities:										
General government	\$ 12,908,947	\$ 9,328,254	\$	\$	(\$3,578,693)	\$	(\$3,578,693)	\$	\$	\$
Public safety	44,028,682	11,824,431	1,365,480		(31,038,771)		(31,038,771)			
Highways and streets	11,449,294	1,834,707	8,401,179		(1,213,408)		(1,213,408)			
Culture and Recreation	6,810,978	2,482,219	228,642		(4,100,117)		(4,100,117)			
Social services	2,982,647	690	2,609,176		(372,561)		(372,561)			
Transportation (payment to AATA)	8,668,141	86,770			(8,579,371)		(8,579,371)			
Community access television	1,001,330	1,388,335			387,005		387,005			
Urban redevelopment and housing	2,188,427				(2,188,427)		(2,188,427)			
Public services	5,227,128				(5,227,128)		(5,227,128)			
Unallocated depreciation	71,575				(71,575)		(71,575)			
Interest on long-term debt	1,539,263				(1,539,263)		(1,539,263)			
Total governmental activities	98,870,412	26,743,606	12,604,477		(57,520,329)		(57,520,329)			
Business-type activities:										
Water	16,881,863	18,377,951				1,498,078	1,498,078			
Sewer	13,468,810	18,533,853				5,445,043	5,445,043			
Parking	3,864,777	2,068,278				(618,501)	(618,501)			
Market	124,754	125,347				593	593			
Golf course	1,134,301	998,218				(138,083)	(138,083)			
Airport	904,514	719,842				(184,672)	(184,672)			
Stormwater	1,556,229	3,759,240				2,202,011	2,202,011			
Solid Waste	5,870,503	814,148				(6,082,363)	(6,082,363)			
Total business-type activities	47,851,771	48,783,877				(657,894)	(657,894)			
Total primary government	\$ 144,522,183	\$ 73,539,483	\$ 12,604,477	\$	\$ (57,520,329)	\$ (657,894)	\$ (58,178,223)			
Component units:										
Housing Commission	\$13,819,341	\$348,493	\$12,302,227	\$414,038				(653,583)		
Smart Zone Local Development Finance Authority	254,000								(254,000)	
Downtown Development Authority	18,801,415	11,860,428								(4,920,889)
Total component units	\$30,774,756	\$12,220,919	\$12,302,227	\$414,038				(653,583)	(254,000)	(4,920,889)
General revenues:										
Taxes:										
Property taxes, levied for general purpose					45,567,059	10,399,700	55,966,759		213,790	3,365,456
Property taxes, levied for debt service					16,430,807		16,430,807			
State-shared revenues and grants (unrestricted)					11,469,467		11,469,467			
Investment income					4,240,277	2,177,470	6,417,747	50,585	8,827	377,606
Other					194,410		194,410	88,098	21,812	912,569
Total general revenues					77,928,020	12,577,170	90,505,190	138,723	342,229	4,655,645
Special Item (Note 21)					4,100,000		4,100,000			
Transfers					7,134,212	(7,134,212)				
Total general revenues, special item and transfers					89,162,232	5,442,958	94,605,190	138,723	342,229	4,655,645
Change in net assets					31,841,903	4,585,064	36,226,967	(516,860)	88,229	(285,344)
Net assets at beginning of year, as restated (Note 20)					682,287,264	165,310,450	827,587,824	8,785,932	18,032	12,571,047
Net assets at end of year					\$ 692,899,767	\$ 169,895,514	\$ 863,794,791	\$9,269,072	\$18,161	\$12,285,703

The accompanying notes are an integral part of the financial statements.

CITY OF ANN ARBOR  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2006

	General	Maintenance Facility	Open Space & Parkland Preservation	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash	\$1,081,455	\$	\$427,844	\$2,377,992	\$3,887,291
Equity in pooled cash and investments (Note 4)	12,795,868	5,087,799	6,796,450	48,594,096	73,274,213
Investments, at fair value (Note 4)		24,474,436	17,450,397	3,435,718	45,360,551
Receivables:					
Taxes	350,019	6,554	12,176	88,822	457,571
Accounts	1,081,269			1,112,941	2,194,210
Special assessments				611,027	611,027
Accrued interest and dividends			104,026	30,082	134,088
Improvement charges				11,488	11,488
Loans				918,529	918,529
Unbilled district costs				187,423	187,423
Less: Allowance for uncollectibles	(798,437)		(11,619)	(238,755)	(1,048,811)
Due from other funds (Note 5)	3,463,540		33,605	809,326	4,306,471
Due from other governments	340,663			1,490,177	1,830,840
Prepaid items	1,100				1,100
Inventory, at cost	32,318				32,318
<b>Total Assets</b>	<b>\$18,347,795</b>	<b>\$29,568,789</b>	<b>\$24,812,879</b>	<b>\$59,428,846</b>	<b>\$132,158,309</b>

CITY OF ANN ARBOR  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2006  
(Concluded)

	General	Maintenance Facility	Open Space & Parkland Preservation	Nonmajor Governmental Funds	Total Governmental Funds
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities:</b>					
Accounts payable	\$1,158,293	\$1,517,308	\$96,880	\$909,948	\$3,682,429
Accrued liabilities	1,383,381	900	175	162,784	1,547,240
Accrued interest payable				81,902	81,902
Due to other funds (Note 5)	446,702	119	1,889,098	1,802,344	4,138,263
Due to other governments	644,051				644,051
Deposits	1,318,921			20,000	1,338,921
Deferred revenue	81,767			1,827,936	1,909,703
Accrued compensated absences (Note 9)	865,975	193		70,681	936,849
<b>Total Liabilities</b>	<b>5,899,090</b>	<b>1,518,520</b>	<b>1,986,153</b>	<b>4,875,595</b>	<b>14,279,358</b>
<b>Fund balances:</b>					
Reserved for prepaid items	1,100				1,100
Reserved for encumbrances	452,450	23,991,315	251,646	5,729,806	30,425,217
Reserved for endowment				2,103,500	2,103,500
Reserved for debt service				1,375,412	1,375,412
Reserved for inventories	32,318				32,318
<b>Unreserved balances:</b>					
Designated for subsequent year's expenditures	130,216				130,216
Designated, nonmajor capital projects funds				11,709,820	11,709,820
Undesignated	11,832,621	4,058,954	22,575,080		38,466,655
Undesignated, nonmajor special revenue funds				33,634,713	33,634,713
<b>Total Fund Balances</b>	<b>12,448,705</b>	<b>28,050,269</b>	<b>22,826,726</b>	<b>54,553,251</b>	<b>117,878,951</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$18,347,795</b>	<b>\$29,568,789</b>	<b>\$24,812,879</b>	<b>\$59,428,846</b>	<b>\$132,158,309</b>

The accompanying notes are an integral part of the financial statements.

CITY OF ANN ARBOR  
 RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET  
 TO THE STATEMENT OF NET ASSETS  
 JUNE 30, 2006

Fund balances of governmental funds	\$ 117,878,951
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets have not been included as financial resources in governmental fund activity.	753,341,447
Depreciation of capital assets.	(115,925,478)
Long-term debt and compensated absences are not due and payable in the current period and therefore have not been included in the governmental funds.	
Bonds payable	(64,535,638)
Compensated absences	(13,059,539)
Accrued interest payable for the current portion of interest due on bonds has not been reported in the governmental funds.	(502,544)
Deferred revenue in governmental funds is susceptible to full accrual on the entity-wide statements.	1,909,703
Internal service funds are used by management to charge the costs of certain activities, such as equipment management and self-insurance, to individual funds. The assets and liabilities of the internal service funds must be added to the statement of net assets.	14,792,365
Net assets of governmental activities	<u>\$ 693,899,267</u>

*The accompanying notes are an integral part of the financial statements.*



CITY OF ANN ARBOR  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2008

	General	Maintenance Facility	Open Space & Parkland Preservation Millage	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>					
Taxes	\$45,597,059	\$	\$2,014,851	\$14,415,956	\$62,017,866
Special assessments/improvement charges				122,147	122,147
Licenses, permits and registrations	1,099,663			2,129,668	3,229,331
Federal grants	2,952		190,842	3,889,043	4,082,837
State shared revenues and grants	11,469,467			8,541,840	20,011,307
Charges for services	6,886,810			2,621,575	9,508,385
Fines and forfeits	5,604,236			393,477	5,997,715
Interest and penalties				39,894	39,894
Investment income	1,432,514	120,023	772,493	1,519,386	3,844,416
Rentals	122,882			6,000	128,882
Contributions and donations				164,162	164,162
Sale of property and equipment	2,447			1,023	3,470
Intra-governmental sales				157,850	157,850
Miscellaneous	105,665	6,000	317	82,406	194,410
<b>Total Revenues</b>	<b>72,113,717</b>	<b>126,023</b>	<b>2,978,303</b>	<b>34,364,429</b>	<b>109,582,472</b>
<b>Expenditures:</b>					
<b>Current:</b>					
Mayor and Council	276,616				276,616
Administration	559,552			2,247,524	2,806,076
Clerk/Elections	671,294				671,294
Law enforcement	24,783,869			650,227	25,434,096
Fire department	12,058,017				12,058,017
District court	3,635,102				3,635,102
Building department	1,937,024			2,199,931	4,136,955
Highways and streets				13,513,583	13,513,583
Social services	2,413,364				2,413,364
Parks and recreation	3,616,894		406,440	2,457,283	6,480,617
Park operations and forestry	3,751,360			1,725,431	5,476,791
Historic district commission	6,832				6,832
Public transportation	8,668,141				8,668,141
General government	6,868,006				6,868,006
Community access television				1,056,623	1,056,623
Urban redevelopment and housing				2,188,427	2,188,427
Information services					
Capital outlay		5,122,883	4,702,362	1,117,926	10,943,071
<b>Debt service:</b>					
Principal retirement				2,508,050	2,508,050
Interest and fiscal charges				1,329,166	1,329,166
<b>Total Expenditures</b>	<b>69,243,071</b>	<b>5,122,883</b>	<b>5,108,802</b>	<b>30,994,071</b>	<b>110,468,627</b>
<b>Excess of Revenues over (under) Expenditures</b>	<b>2,870,646</b>	<b>(4,996,860)</b>	<b>(2,130,499)</b>	<b>3,370,358</b>	<b>(886,355)</b>

CITY OF ANN ARBOR  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2006  
(Concluded)

	General	Maintenance Facility	Open Space & Parkland Preservation Millage	Other Governmental Funds	Total Governmental Funds
Other Financing Sources (Uses):					
Transfers in (Note 10)	\$865,874	\$8,958,000	\$	\$12,173,848	\$21,817,720
Transfers out (Note 10)	(1,768,182)	(7,114,701)	(620,488)	(3,435,637)	(12,938,988)
Issuance of debt		24,835,000	20,250,000		44,885,000
Bond issuance costs		(163,876)	(141,934)		(305,812)
Total Other Financing Sources (Uses)	(1,082,308)	28,314,421	19,487,598	8,738,209	53,457,920
Net change in fund balances	1,768,338	21,317,561	17,357,099	12,108,567	52,571,565
Fund Balances - July 1, 2005, as restated	10,680,387	6,732,708	5,469,627	42,444,684	65,307,386
Fund Balances - June 30, 2006	<u>\$12,448,705</u>	<u>\$28,050,289</u>	<u>\$22,826,726</u>	<u>\$54,553,251</u>	<u>\$117,878,951</u>

The accompanying notes are an integral part of the financial statements.

CITY OF ANN ARBOR  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
 AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED JUNE 30, 2006

Net change in fund balances - total governmental funds	\$ 52,571,565
Amounts reported for governmental activities in the statement of activities differs from the amounts reported in the statement of revenue, expenditures, and changes in fund balances because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets is allocated over their estimated useful lives as depreciation expense.	22,224,528
Depreciation in the current period.	(8,268,820)
Governmental funds report revenue from sale of assets. However, an adjustment is needed to reflect loss on sale of capital assets	(939,289)
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets.	(44,579,188)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	2,508,050
Accrued interest for Debt. This is the net change in accrued interest for the current period.	(189,687)
Amortization of bond discount is an expense on statement of activities	(2,829)
The changes in accrual for compensated absences expenses reported in the statement of activities require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	903,658
Accrual for Emerald Ash Borer liability in the governmental funds	4,100,000
Deferred revenue in governmental funds is susceptible to full accrual on the entity-wide statements.	(121,257)
Internal service funds are used by management to charge the costs of certain activities, such as equipment management and self-insurance, to individual funds. The net revenues (expenses) of the internal service funds is reported with governmental activities.	3,435,162
Change in net assets of governmental activities	<u>\$ 31,641,903</u>

*The accompanying notes are an integral part of the financial statements.*

CITY OF ANN ARBOR  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
June 30, 2006

	Business-Type Activities Enterprise Funds								Governmental Activities
	Water Supply System	Sewage Disposal System	Parking System	Market	Golf Courses	Airport	Stormwater Sewer System	Hydroelectric Power System	Internal Service Funds
<b>ASSETS</b>									
<b>Current Assets:</b>									
Cash	\$3,075,289	\$1,302,811	\$	\$10,570	\$	\$28,503	\$87,099	\$	\$143,435
Cash with fiscal agents		2,104,802							2,104,802
Cash and cash equivalents, held at County of Washtenaw		3,882							3,882
Equity in pooled cash and investments (Note 4)	2,721,448	34,897,087	2,041,095	540,429	29,992	17,159	3,481,043		12,000,302
Investments (Note 4)	3,284,270	8,848,344						7,133,180	50,842,295
Receivables:								30,356	11,942,970
Accounts	3,440,473	4,828,870	9,055	420	9,359	82,793	830,828	217,737	8,214,541
Improvement charges	282,840	299,425					17,169	29,367	828,601
Interest receivable	11,828	93,211	2,430						77,287
Less: Allowance for uncollectibles	(33,741)	(5,955)	(9,055)	(430)	(3,380)	(18,901)	(17,428)	(27,872)	(16,507)
Due from other funds (Note 5)	601,845	545,832		2,891	40,092	969	61,954	4,070	1,283,753
Prepaid items							9,831		9,831
Deferred charges	232,448	444,858	340,997		14,825		5,231		1,038,159
Inventory, at cost	470,748	84,374			15,921				552,041
<b>Total Current Assets</b>	<b>14,067,025</b>	<b>53,054,817</b>	<b>2,384,523</b>	<b>553,871</b>	<b>110,823</b>	<b>112,533</b>	<b>4,456,427</b>	<b>7,532,868</b>	<b>15,594,240</b>
<b>Capital assets, at cost (Note 7):</b>									
Land	412,830	339,582	4,522,293	84,120	693,739	708,927	15,000	598,237	194,707
Buildings	8,545,825	31,500,770	60,878,649	332,208	506,024	1,871,570		5,824,446	500,665
Improvements other than buildings	77,892,442	53,024,718	523,891	16,700	2,305,074	143,484	4,343,340	44,453	138,287,028
Machinery and equipment	9,539,896	22,385,783	172,578		789,302	281,308	158,743	2,308,903	3,053,422
Vehicles	790,129	868,497			20,894	58,041	390,669	5,788,409	7,051,803
Less: Accumulated depreciation	(36,322,153)	(74,814,300)	(18,076,950)	(144,489)	(1,483,643)	(2,075,504)	(838,060)	(5,498,211)	(7,847,484)
Construction in progress	8,214,240	29,128,405					551,433	1,827,874	33,521,752
<b>Net Capital Assets</b>	<b>59,073,210</b>	<b>58,733,345</b>	<b>49,820,855</b>	<b>281,537</b>	<b>2,830,890</b>	<b>984,744</b>	<b>4,818,231</b>	<b>10,490,911</b>	<b>3,015,520</b>
<b>Total Assets</b>	<b>83,140,235</b>	<b>109,787,862</b>	<b>52,205,378</b>	<b>845,408</b>	<b>2,941,513</b>	<b>1,077,277</b>	<b>9,074,658</b>	<b>18,026,570</b>	<b>18,609,760</b>

CITY OF ANN ARBOR  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
June 30, 2006  
(Concluded)

	Business-Type Activities Enterprise Funds									Governmental Activities	
	Water Supply System	Sewage Disposal System	Parking System	Market	Gas Countryside	Airport	Stormwater Sewer System	Hydroelectric Power System	Solid Waste	Total	Internal Service Funds
LIABILITIES											
Current Liabilities:											
Accounts payable	\$766,000	\$658,440	\$	\$1,857	\$18,002	\$3,970	\$175,473	\$	\$549,542	\$2,171,000	\$515,000
Estimated claims payable											2,635,058
Accrued liabilities	\$811,785	\$154,772		\$30,015	\$15,481	\$5,941	\$10,091		\$44,778	1,078,743	150,760
Accrued interest payable	414,944	617,509	409,822		9,574		1,950			1,453,899	
Due to other funds (Note 5)	511,818	348,188	5,829	458	849,931	8,228	3,420		185,205	1,810,884	180,076
Deposits	306,205				13	600				308,878	
Revenue bonds payable - current portion (Note 9)	3,085,000	1,495,000					130,000			4,710,000	
Ann Arbor Building Authority bonds payable - current portion (Note 9)			1,750,000		65,000					1,845,000	
Other bonds payable - current portion (Note 9)			344,053							344,053	
Other debt-current portion (Note 9)	35,000	120,000			34,907		125,109			315,018	
Accrued compensated absences (Note 9)	63,498	55,628		250	718	5,764	12,013		29,355	187,230	21,708
Total Current Liabilities	5,994,308	3,443,551	2,509,604	32,390	1,023,604	24,501	464,958		808,881	14,303,793	3,510,721
Long-Term Liabilities:											
Revenue bonds - non-current portion (Note 9)	31,090,000	30,665,000					285,000			62,040,000	
Ann Arbor Building Authority bonds payable - non-current portion (Note 9)			23,830,000		680,000					24,710,000	
Other bonds payable - non-current portion (Note 9)			717,444							717,444	
Other long-term debt - non-current portion (Note 9)	417,801	1,765,826			105,713		387,793			2,657,223	
Accrued compensated absences - non-current portion (Note 9)	1,117,934	788,938		3,400	87,970	106,450	234,047		435,257	2,774,826	306,074
Total Long-Term Liabilities	32,625,825	33,219,764	24,547,444	3,400	1,073,683	106,450	687,640		435,257	82,869,493	306,074
Total Liabilities	38,620,131	38,665,315	27,057,048	35,790	2,097,287	130,951	1,352,598		1,244,138	107,203,286	3,817,395
NET ASSETS											
Invested in Capital Assets, net of related debt	34,445,319	22,887,519	23,179,158	291,537	1,715,270	964,744	3,710,329		10,403,911	97,487,787	3,011,150
Restricted for debt service	3,417,800	2,581,739					41,500			6,120,739	
Restricted for equipment replacement	2,203,129	5,545,232					530,523		357,822	9,636,508	
Restricted for landfill									181,332	181,332	
Unrestricted (deficit)	4,454,156	41,228,157	1,968,072	518,081	(871,044)	(16,440)	3,439,710		5,709,576	58,489,160	11,781,215
TOTAL NET ASSETS	\$44,520,104	\$73,122,847	\$25,148,130	\$809,618	\$844,226	\$948,298	\$7,722,082		\$16,782,441	\$189,865,524	\$14,782,365

The accompanying notes are an integral part of the financial statements.

CITY OF ANN ARBOR  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUNDS  
For the Year Ended June 30, 2006

	Business-Type Activities Enterprise Funds									Governmental Activities	
	Water Supply System	Sewage Disposal System	Parking System	Market	Golf Courses	Airport	Stormwater Sewer System	Hydroelectric Power System	Solid Waste	Total	Internal Service Funds
Operating Revenues: Charges for services	\$18,354,805	\$18,917,661	\$3,068,278	\$125,347	\$998,218	\$719,842	\$3,730,784	\$	\$823,359	\$48,735,292	\$30,467,358
Miscellaneous revenue											22,682
Total Operating Revenues	18,354,805	18,917,661	3,068,278	125,347	998,218	719,842	3,730,784		823,359	48,735,292	30,489,940
Operating Expenses:											
Personal services	5,619,388	4,491,135	1,784	63,221	561,755	422,588	806,760		2,954,067	14,920,698	4,699,687
Municipal service charge	631,668	421,704		20,940	120,998	68,880	39,408		356,232	1,559,828	1,091,436
Information Technology charge	543,021	291,848		7,878	22,724	38,871	27,665		146,063	1,078,070	548,602
Materials and supplies	1,835,313	734,626		12,577	160,901	38,703	49,547		156,721	2,985,308	826,305
Utilities	1,427,242	1,120,124		5,844	31,678	57,008	5,549		228,208	2,873,649	118,446
Insurance	118,160	638,960		72	2,016	57,612	1,704		88,380	902,904	14,775,995
Contractual services	510,399	966,332		847	8,167	144,346	113,125		2,424,297	4,167,513	285,383
Maintenance	269,440	130,035		1,167	27,166	17,049	17,958		235,137	697,842	177,422
Professional fees	1,237,759	603,066	138,310				263,800		178,868	2,421,823	272,979
Rent	190,150	15,442		3,120	6,761	4,313	429		1,784,025	1,984,240	
Miscellaneous	412,921	210,222	880,997	667	5,333	12,633	10,455		26,226	1,580,454	44,924
Cost of goods sold											1,983,565
Depreciation and amortization	2,649,828	2,601,899	1,638,350	8,299	125,381	42,511	169,306		1,319,748	8,553,302	933,530
Total Operating Expenses	15,443,289	12,223,413	2,657,441	124,632	1,073,848	904,514	1,502,706		9,875,970	43,805,811	25,736,254
Operating Income (Loss)	2,911,516	6,694,248	408,835	715	(75,628)	(184,672)	2,228,078		(9,052,611)	2,930,481	4,753,688
Nonoperating Revenues (Expenses):											
Interest income	365,041	1,374,099	89,175	17,212		2,921	79,857		249,165	2,177,470	351,907
Net gain on retirement of capital assets	23,158	18,192					27,456		(8,218)	57,585	81,517
Interest expense and fiscal charges	(1,436,594)	(1,265,288)	(1,027,336)	(122)	(60,455)		(53,523)		(533)	(3,845,851)	(17,581)
Lease charges in lieu of interest		(109)								(109)	
Property taxes									10,399,700	10,399,700	
Total Nonoperating Revenues (Expenses)	(1,050,397)	124,894	(938,161)	17,090	(60,455)	2,921	53,790		10,639,113	8,768,795	425,903
Income (Loss) Before Transfers	1,861,119	6,819,142	(529,326)	17,805	(136,083)	(181,751)	2,281,868		1,586,502	11,719,276	5,179,589
Transfers In (Note 10)	2,003,192	235,192			354,621		300,000		418,872	3,311,877	711,641
Transfers out (Note 10)	(3,616,211)	(5,309,959)					(524,478)	(314,242)	(689,981)	(10,448,069)	(2,456,181)
Net Transfers In (Out)	(1,613,019)	(5,074,767)			354,621		(224,478)	(314,242)	(251,109)	(7,134,212)	(1,744,520)
Changes in Net Assets	248,100	1,744,375	(529,326)	17,805	218,538	(190,969)	2,057,390	(314,242)	1,335,393	4,585,064	3,435,089
Net Assets - July 1, 2005, as restated	44,274,004	71,378,272	25,677,456	791,813	625,688	1,137,265	5,684,672	314,242	15,447,048	165,310,460	11,357,295
Net Assets - June 30, 2006	\$44,520,104	\$73,122,647	\$25,148,130	\$809,618	\$844,226	\$946,296	\$7,722,082	\$	\$16,782,441	\$168,895,524	\$14,792,365

The accompanying notes are an integral part of the financial statements.

CITY OF ANN ARBOR  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
For the Year Ended June 30, 2006

	Business-Type Activities Enterprise Funds									Governmental Activities	
	Water Supply System	Sewage Disposal System	Parking System	Market	Golf Courses	Airport	Stormwater Sewer System	Hydroelectric Power System	Solid Waste	Total	Internal Service Funds
Cash flow from operating activities:											
Receipts from customers	\$18,289,218	\$18,214,871	\$3,003,755	\$125,368	\$1,003,851	\$703,358	\$3,814,785	\$	\$832,286	\$45,647,571	\$30,444,352
Receipts from interfund services provided		292,768							60,634	353,402	42,326
Payments to suppliers	(9,896,125)	(5,922,825)	(1,019,203)	(52,538)	(360,012)	(442,287)	(344,455)		(5,707,798)	(20,845,243)	(23,478,501)
Payments on behalf of employees	(5,778,733)	(4,454,815)		(32,860)	(571,808)	(439,881)	(882,743)		(2,896,599)	(15,037,339)	(4,524,871)
Payments for interfund services used	(1,380,411)		5,629	(3,633)	(229,166)	(740)	(704,206)			(2,291,530)	(1,105,837)
Net cash provided by (used in) operating activities	4,133,849	8,130,189	2,050,181	36,315	(155,978)	(179,820)	1,703,301		(7,911,477)	7,826,801	1,377,271
Cash flows from noncapital financing activities:											
Transfers in	2,003,192	235,182			354,821		300,000		418,872	3,311,877	711,641
Transfers out	(3,618,211)	(5,309,950)				(9,218)	(524,478)	(314,242)	(669,981)	(10,446,080)	(2,456,181)
Property taxes									10,299,700	10,299,700	
Net cash provided by (used in) noncapital financing activities	(1,615,019)	(5,074,767)			354,821	(9,218)	(224,478)	(314,242)	10,148,519	3,205,488	(1,744,520)
Cash flows from capital and related financing activities:											
Proceeds from sales of bonds and notes	105,301	921,254								1,026,545	
Acquisition and construction of capital assets	(5,092,814)	(4,898,960)					(538,903)		(708,833)	(11,240,600)	(1,067,410)
Principal paid on revenue bonds, maturities, capital leases and notes	(3,125,000)	(1,515,000)	(1,864,053)		(139,580)		(264,553)			(7,028,186)	
Interest paid on bonds, notes, and capital leases	(1,274,594)	(1,273,638)	(1,083,453)	(122)	(59,663)		(52,505)		(533)	(3,744,508)	
Proceeds from sale of equipment	23,157	17,885					27,958		1,881	70,879	121,010
Net cash provided by (used in) capital and related financing activities	(9,363,860)	(6,748,465)	(3,047,508)	(122)	(199,243)		(840,095)		(707,485)	(20,915,776)	(636,408)
Cash flows from investing activities:											
Purchase of investment securities	(4,363,652)	(16,282,640)							338	(20,645,063)	
Sale of investment securities	4,277,093	16,038,115	1,297,000							21,810,208	
Interest and dividends on investments	357,118	1,339,341	89,175	17,212		2,821	78,857		248,165	2,134,787	361,987
Net cash provided by (used in) investing activities	270,557	1,092,807	1,386,175	17,212		2,821	78,857		248,503	3,099,032	361,987
Net increase (decrease) in cash and cash equivalents	(6,554,373)	(2,600,225)	388,850	53,405	(600)	(186,928)	709,585	(314,242)	1,779,132	(5,724,395)	(941,688)
Cash and cash equivalents at beginning of the year	12,351,091	40,968,778	1,652,246	497,594	30,592	231,590	2,835,457	314,242	5,490,878	84,385,476	13,178,425
Cash and cash equivalents at end of the year	\$ 5,796,718	\$ 38,368,552	\$ 2,041,096	\$ 550,999	\$ 29,992	\$ 45,672	\$ 3,545,042	\$	\$ 7,270,010	\$ 57,661,081	\$ 12,236,737

(Continued)

CITY OF ANN ARBOR  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
For the Year Ended June 30, 2008  
(Continued)

	Business-Type Activities Enterprise Funds									Governmental Activities	
	Water Supply System	Sewage Disposal System	Parking System	Market	Golf Courses	Airport	Stormwater Sewer System	Hydroelectric Power System	Solid Waste	Total	Internal Service Funds
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:											
Net operating income (loss)	\$ 2,911,518	\$ 6,094,248	\$ 408,835	\$ 715	\$ (75,028)	\$ (184,672)	\$ 2,228,078	\$	\$ (9,052,611)	\$ 2,930,481	\$4,738,105
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:											
Depreciation and amortization	2,648,828	2,001,899	1,638,350	8,299	125,361	42,511	189,306		1,319,748	8,553,302	933,530
Allowance for uncollectible accounts	(18,633)	115	(7,070)	(11)	903	(12,211)	(456)		13,769	(23,504)	12,110
(Increase) decrease in assets and increase (decrease) in liabilities											
Accounts receivable	(48,954)	(702,905)	7,070	30	4,800	(4,272)	(115,503)		(204,042)	(1,062,606)	(57,706)
Due from other funds	(448,263)	672,327		(2,091)	(48,092)	(959)	(18,830)		41,794	187,846	(380,722)
Inventory	(100,173)	(3,967)			8,775					(95,385)	31,212
Prepaid items	99,635	64,529	104	685	8,282	8,287	13,022		35,433	228,537	(450,344)
Accounts payable	135,787	(832,001)		(111)	9,048	(9,119)	188,563		(141,076)	(688,509)	179,848
Accrued compensated absences	(71,514)	11,005		1,687	10,674	(9,820)	(43,325)		97,056	(3,848)	18,484
Estimated claims payable											(3,009,377)
Accrued liabilities	(87,831)	25,515	(737)	28,474	(20,927)	(7,564)	(12,858)		(39,588)	(115,318)	47,110
Due to other funds	(912,118)	(379,569)	5,829	(1,542)	(182,017)	229	(695,436)		18,840	(2,135,974)	(676,787)
Deposits	42,890	(987)			13					41,725	
Net cash provided by (used in) operating activities	\$ 4,153,948	\$ 8,130,199	\$ 2,050,181	\$ 38,315	\$ (155,978)	\$ (179,629)	\$ 1,703,301	\$	\$ (7,914,477)	\$ 7,826,661	\$ 1,377,271

The accompanying notes are an integral part of the financial statements.



CITY OF ANN ARBOR  
FIDUCIARY FUNDS  
STATEMENT OF FIDUCIARY NET ASSETS  
June 30, 2006

	Employees' Benefit Trust Funds	Agency Funds
<b>ASSETS</b>		
Cash	\$1,284,706	\$936,696
Equity in pooled cash and investments (Note 4)	1,554	
Investments, at fair value (Note 4)		
Short term investments	7,766,844	
U.S. Government obligations	36,243,383	
Guaranteed investment contracts	12,420,020	
Collateralized Mortgage Obligations	14,967,711	
Domestic corporate bonds	45,703,983	
Domestic stocks	293,660,050	
Real Estate-Direct & funds	47,995,608	
Accrued interest and dividends	928,780	
Due from other governments	344,710	
Property, plant & equipment (net of depreciation of \$23,463)	3,351	
<b>Total Assets</b>	<u>\$461,320,700</u>	<u>\$936,696</u>
<b>LIABILITIES</b>		
Accounts payable	2,388,974	\$757,831
Due to other governments		111,001
Deposits		67,864
<b>Total Liabilities</b>	<u>2,388,974</u>	<u>\$936,696</u>
<b>NET ASSETS</b>		
Held in Trust for Pension Benefits and Other Purposes	<u>\$458,931,726</u>	

*The accompanying notes are an integral part of the financial statements.*

CITY OF ANN ARBOR  
FIDUCIARY FUNDS  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
For the Year Ended June 30, 2006

	Total Employee Retirement Funds
<b>ADDITIONS</b>	
Investment income:	
Net realized and unrealized appreciation	
In fair value of investments	\$29,947,537
Interest	11,648,671
Dividends	4,072,337
	<u>45,668,545</u>
Total investment income	
	45,668,545
Less investment expense	1,928,604
	<u>43,739,941</u>
Net investment income	
	43,739,941
Contributions:	
Employer	9,963,552
Plan member	2,951,544
	<u>12,915,096</u>
Total contributions	
	12,915,096
Total additions	<u>56,655,037</u>
	56,655,037
<b>DEDUCTIONS</b>	
Benefits	22,567,344
Refund of contributions	611,444
Administrative expense	7,527,464
	<u>30,706,252</u>
Total deductions	
	30,706,252
Change in net assets	25,948,785
Net assets held in trust for benefits at beginning of year	432,982,941
	<u>458,931,726</u>
Net assets held in trust for benefits at end of year	
	\$458,931,726

*The accompanying notes are an integral part of the financial statements.*

## CITY OF ANN ARBOR

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2006

## 1. FINANCIAL REPORTING ENTITY

The City of Ann Arbor, Michigan (the City) was incorporated in 1851. On April 9, 1956, a City Charter (home rule) was ratified by electors in accordance with Michigan law. The City operates under a Council-Administrator form of government and provides the following services as authorized by its charter: public safety (police, fire, and building inspection), traffic control and street maintenance, refuse collection, water and wastewater, parks and recreation, public improvements, planning and zoning, airport, urban redevelopment and housing, golf courses, and general administrative services. The City's population is approximately 114,328 people within an area of 28.6 square miles. The component units discussed below are included in the City's financial reporting entity because of the significance of their operational or financial relationships with the City. In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, "*The Financial Reporting Entity*," (as amended by GASB Statement No. 39), these financial statements present the City (the primary government) and its component units. The criteria established by the GASB for determining the reporting entity includes financial accountability and whether the financial statements would be misleading if data were not included.

**Blended Component Unit.** The Ann Arbor Building Authority is presented as a blended component unit. Commissioners of the Authority are appointed by the Mayor and confirmed by City Council. Although it is legally separate from the City, the Authority is reported as if it were part of the primary government because its sole purpose is to issue revenue bonds to finance major capital construction by the City.

**Discretely Presented Component Units.** The Component Unit columns in the government-wide financial statements include the financial data of the City's other Component Units. They are reported in separate columns to emphasize that they are legally separate from the City. The following Component Units are included in the reporting entity because the primary government is financially accountable and is able to impose its will on the organization.

**Downtown Development Authority (DDA).** The DDA was created to finance rehabilitation and redevelopment in the downtown area. Commissioners of the DDA are appointed by the Mayor and approved by City Council. Development plans are approved by Council and Council must approve all modifications to the plan. The DDA's primary source of funding is Tax Increment Financing revenues. Bonds secured by those revenues are issued by the City on behalf of the DDA, which does not have the ability to issue debt. During the fiscal year, the DDA gave \$2 million to the City as part of an agreement between the City and DDA. Also, during the fiscal year the DDA transferred \$5.2 million for debt service payments and other transfers for maintenance. The DDA issues separate audited financial statements.

**Ann Arbor Housing Commission.** The Housing Commission was created to provide low-income housing for City residents. Commissioners of the Housing Commission are appointed by the Mayor and approved by City Council. City Council is notified of all grant applications and any changes to contracts with the Department of Housing and Urban Development, the Commission's primary funding source. The Commission maintains its own accounting records and bank accounts. The City provides limited, special purpose financial support to the Commission, subject to request and Council approval, and is contingently liable for its debt. The Housing Commission issues separate audited financial statements.

**SmartZone Local Development Finance Authority (SmartZone LDFA).** The SmartZone LDFA was established in accordance with the authority granted under Public Act 248 of 2000 respectively by the cities of Ann Arbor and Ypsilanti in June 2002 to encourage high tech business investment within the boundaries of the SmartZone, comprising portions of City of Ann Arbor and the City of Ypsilanti, and the funding of the SmartZone through a Local Development Financing Authority.

## NOTES TO FINANCIAL STATEMENTS (Continued)

## 1. FINANCIAL REPORTING ENTITY (Concluded)

Separate combining statements for the discretely presented Component Units are not presented as each Component Unit is shown as a separate column on the government wide financial statements. Complete financial statements of the individual Component Units can be requested from the City of Ann Arbor Finance Department.

**Related Organizations.** The Ann Arbor Transportation Authority (AATA) and the Ann Arbor Economic Development Corporation (EDC), are not included in the financial reporting entity. The members of the governing board of each are appointed by the Mayor and confirmed by the City Council, but the City's accountability for these organizations does not extend beyond making the appointments. The EDC, whose purpose is to foster business development within the City, and which has issued bonds bearing the City's tax-exempt status (for which the City is not contingently liable), had, as of June 30, 2006, assets and a fund balance of \$13,897.

## 2. DESCRIPTION OF CITY OPERATIONS AND FUND TYPES

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental Accounting Standards Board Statement #34, (hereafter known as GASB #34) sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds. The non-major funds are combined in a column in the fund financial statements and detailed in the combining section. The City reports the following major funds:

**Governmental Funds.**

General Fund. This fund is the general operating fund of the City; it is used to account for all financial resources not required to be accounted for in another fund.

Maintenance Facility Fund. This fund is used to account for revenues expended for the construction of a new vehicle maintenance facility.

Open Space and Parkland Preservation Millage Fund. This fund is used to account for funds derived from property tax millage and bond proceeds earmarked for parks acquisition and development rights for open space.

**Proprietary Funds.**

Water Supply System - To account for the provision of treated water of the City and some township residents.

Sewage Disposal System - To account for the collection and treatment of the sewage of the City and some township residents.

Parking System - To account for the operations of the City's parking structures, lots and meters.

Market - To account for the costs of operating the City's Farmers' Market.

Golf Courses - To account for the operation of the City's two 18-hole golf courses.

Airport - To account for the operation of the City's airport including the rental of hangars and tie-down space.

Stormwater Sewer System - To account for the collection and disposal of the City's stormwater.

Solid Waste - To account for the collection and disposal of the City's solid waste and recycling.

Hydroelectric Power System - To account for sale of power from two City power generation dams. This fund was closed, July 1, 2005.

## NOTES TO FINANCIAL STATEMENTS (Continued)

## 2. DESCRIPTION OF CITY OPERATIONS AND FUND TYPES (Concluded)

Non-Current Governmental Assets/Liabilities: GASB Statement #34 eliminates the presentation of Account Groups, but provides for these records to be maintained and incorporates the information into the governmental activities column in the government-wide Statement of Net Assets.

**Other Fund Types:**

**Internal Service Funds.** These funds are used to account for goods or services provided by the Central Stores, Fleet Services, Information Technology, Project Management, Insurance, or Park Headquarters to service areas of the City, or to other governments, on a cost-reimbursement basis.

**Employee Retirement/Benefits Funds.** To account for the accumulation of resources to be used for retirement pension and annuity payments. Resources are contributed by employees at rates fixed by law and by the City at amounts determined by an annual actuarial study.

**Permanent Fund.** To account for monies provided by a private bequest to finance tree planting and maintenance for the Elizabeth Dean Fund. The principal amount of the bequest is to remain intact and invested. Investment earnings are used for the above stated purposes.

**Agency Funds.** These funds are used to account for assets held by the City as an agent for individuals, private organizations, or other governments. Agency funds are, by nature, custodial; therefore, operation results are not measured. Such funds include: Current Tax, Delinquent Tax, Contractor's Retainage and Fifteenth District Court.

## 3. SIGNIFICANT ACCOUNTING POLICIES

**Government-Wide and Fund Financial Statements.** The basic financial statements include both government-wide (based on the City as a whole) and fund financial statements. While the previous financial reporting model emphasized fund types (the total of all funds of a particular type), in the new financial reporting model the focus is on either the City as a whole, or major individual funds (within the fund financial statements). Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business-type. In the government-wide Statement of Net Assets, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column, (b) and are reflected, on a full accrual basis, using the economic resource measurement focus, which incorporates long-term assets and receivables as well as long-term debt and obligations.

The government-wide Statement of Activities reflects both the gross and net costs per functional category (Police, Fire, Public Services, etc.), which are otherwise being supported by general government revenues (property taxes, certain intergovernmental revenues, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. The program revenues must be directly associated with the function (Police, Fire, Public Services, etc.) or a business-type activity. The operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants. Amounts reported as program revenue include 1) charges for services, 2) federal and state operating grants, and 3) special assessments.

## NOTES TO FINANCIAL STATEMENTS (Continued)

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

The net cost (by function or business-type activity) is normally covered by general revenue (property taxes, intergovernmental revenues, interest income, etc.). Historically, the previous financial reporting model did not summarize or present net cost by function or activity.

The City does not currently employ an indirect cost allocation system. An administrative service fee is charged by the General Fund to the other operating funds, that is eliminated like a reimbursement (reducing the revenue and expense in the General Fund), to address administrative services (finance, personnel, purchasing, legal, etc.) provided.

This government-wide focus is more on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The fund financial statements are, in substance, very similar to the financial statements presented in the previous financial reporting model. Emphasis here is on the major funds in either the governmental or business-type categories. Non-major funds (by category) are summarized into a single column.

The major governmental funds in the fund financial statements are presented on a current financial resource and modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. This presentation is deemed most appropriate to (a) demonstrate legal and covenant compliance, (b) demonstrate the source and use of liquid resources, and (c) demonstrate how the City's actual experience conforms to the budget fiscal plan. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental activities column, a reconciliation is presented on the page following each statement, which briefly explains the adjustment necessary to transform the fund based financial statements into the governmental activities column of the government-wide presentation.

Internal service funds of the City (which provide services primarily to other funds of the City) are presented, in summary form, as part of the proprietary fund financial statement. Since the principal users of the internal services are the City's governmental activities, financial statements of internal service funds are consolidated into the governmental activities column when presented at the government-wide level. The costs of these services are allocated to the appropriate functional activity (Police, Fire, Public Services, etc.).

When appropriate, surplus or deficits in the Internal Service funds may be allocated back to customers at the entity-wide Statement of Activities.

The City's' fiduciary funds (which have been redefined and narrowed in scope) are presented in the fund financial statements by type (pension and agency). Since, by definition, these assets are being held for the benefit of a third party (other legal governments, private parties, pension participants, etc.) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements.

The focus of the Statement #34 model is on the City as a whole and the fund financial statements. The focus of the Fund Financial Statements is on the major individual funds of the governmental and business-type categories, as well as the fiduciary presentation, and the statements provide valuable information that can be analyzed and compared (between years and between governments) to enhance the usefulness of the information.

## NOTES TO FINANCIAL STATEMENTS (Continued)

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Basis of Accounting.** The modified accrual basis of accounting is used by all governmental fund types. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e. when they become both measurable and available). *Measurable* means the amount of the transaction can be determined and *available* means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Major sources of revenue considered susceptible to accrual are community development grants, state shared revenues and grants, delinquent property taxes collected during the fiscal year or within a period of 60 days thereafter, and interest on investments.

Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year. The government-wide financial statements and the proprietary, fiduciary and component unit financial statements are presented on an accrual basis of accounting. The governmental funds in the fund financial statements are presented on a modified accrual basis.

In applying the "susceptible to accrual" concept to intergovernmental revenues pursuant to GASB Statement #33 (the City may act as either provider or recipient), the provider should recognize liabilities and expenses and the recipient should recognize receivables and revenue when the applicable eligibility requirements including time requirements, are met. Resources transmitted before the eligibility requirements are met, should, under most circumstances, be reported as advances by the provider and deferred revenue by the recipient.

The City reports deferred revenue on its balance sheet. Deferred revenues arise when a potential revenue does not meet both the *measurable* and *available* criteria for recognition in the current period. Deferred revenues also arise when resources are received by the government before it has a legal claim to them, as when grant monies are received before qualifying expenditures are incurred. In subsequent periods, when both revenue recognition criteria are met, or when the City has a legal claim to the resources, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

The measurement focus of the governmental funds is based on determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than net income determination.

The Enterprise and Fiduciary Funds are maintained on the accrual basis. These Funds' revenues are recognized when earned, and expenses recorded when incurred. Unbilled Water and Sewer Fund utility service provided is recorded as receivables and revenue at year-end. The measurement focus for enterprise funds is based on cost of service and maintenance of capital. Enterprise funds follow Generally Accepted Accounting Principles (GAAP) prescribed by the Governmental Accounting Standards Board (GASB) and all Financial Accounting Standards Board standards issued prior to November 30, 1989. The City also has the option of following subsequent private-sector guidance for business-type activities and enterprise funds to the extent that the guidance does not contradict guidance of the GASB. The City has elected not to follow subsequent private-sector guidance.

## NOTES TO FINANCIAL STATEMENTS (Continued)

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Budgetary Accounting Controls.** The City Administrator is required by City Charter to prepare and submit an annual budget to City Council. A budget is prepared for the General Fund, and Special Revenue Funds. These budgets are prepared on the modified accrual basis and are adopted by City Council as required by the State of Michigan. Budgetary control is maintained at the departmental level for the General Fund. The City Administrator is authorized to transfer budgeted amounts within the General Fund departments. Budgetary control for the Special Revenue Funds is maintained at the fund level. Revisions to a department total of the General Fund or to the fund total of a Special Revenue Fund must be approved by City Council; some supplemental budgetary appropriations, of immaterial size, were necessary during the fiscal year. At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. Any outstanding encumbrances are carried forward to the succeeding fiscal year. Enterprise, Internal Service, and Pension Trust Funds also have legally adopted budgets. Two Special Revenue Funds do not have a legally adopted budget – Parks Maintenance and Repair Millage, as it was expected to have expended the remaining fund balance during the prior year, and Local Forfeiture as the new fund was required at the end of the fiscal year.

**Investments.** Investments are stated at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

**Receivables and Payables.** Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances". Interfund balances at year-end relate to items accrued after year-end related to interfund transfers. These items are repaid immediately in the new year.

**Inventories.** Inventories of materials and supplies are stated at cost using the first-in, first-out method. The cost is accounted for as an expenditure in governmental funds and an expense in the proprietary funds at the time inventories are used.

**Capital Assets.** Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., road, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$2,500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

Capital assets of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Type</u>	<u>Years</u>
Structures and improvements	40-50
Improvements other than buildings	20-99
Machinery, equipment and vehicles	3-15
Infrastructure	15-25



## NOTES TO FINANCIAL STATEMENTS (Continued)

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Encumbrances.** Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting (under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation) is utilized in the governmental funds. Encumbrances outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

**Compensated Absences.** The City accrues vacation pay, compensatory time off, severance pay for sick leave, and any salary-related payments for these compensated absences in accordance with GASB Statement No. 16, *Accounting for Compensated Absences*. The current obligations of all funds and the long-term obligations of Proprietary Funds are recorded in the respective funds. City employees are granted vacation time based on length of service. Most employees have the option of receiving compensatory time off in lieu of pay for overtime worked up to 120 hours. Sick pay is earned at the rate of one day per month, and unused sick days may be accumulated without limitation. An employee is paid, in most cases, a maximum 960 unused sick hours and the total of any remaining accumulated hours upon retirement or death. City policy provides for payment of unused vacation and compensatory time off, but not unused sick hours, to terminated employees. Paid time off that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Paid time off is accrued when incurred in proprietary funds and reported as a liability. For all funds, the current portion is the amount estimated to be used in the following year. In accordance with GAAP, for the governmental funds, in the Fund Financial Statements, the non-current portion of the compensated absences are considered long-term and therefore, are not a fund liability and represents a reconciling item between the fund level and government-wide presentations. In addition to the Proprietary Funds, the General Fund, and several nonmajor special revenue funds have been used to liquidate the liability for compensated absences.

**Interfund Transactions.** During the course of normal operations the City has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The basic financial statements generally record such transactions as operating transfers. Operating subsidies are also recorded as transfers. Internal Service Funds are used to record charges for services to all City service areas and funds as operating revenue for the services provided. All City funds record payments to the Internal Service Funds as operating expenditures.

Certain funds remit payments for municipal service charges in lieu of taxes to the General Fund based on a pro rata share of general administrative overhead of the City government. Payments are recorded as revenue in the General Fund and as operating expense in Enterprise Funds.

**Self Insurance.** The City is self-insured for property, casualty, and employee benefit coverage. Costs of actual claims and estimated incurred but not reported claims, less any excess insurance coverage, are expensed in the Insurance Internal Service Fund at the time the liability is estimated.

**Reserves and Designations.** In the fund financial statements, reserves indicate portions of fund equity not appropriable for expenditures and/or legally segregated for a specific future use. Designations indicate tentative plans for financial resource utilization in a future period. Such plans are subject to change, and may never be legally authorized or result in expenditures. When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

**Grants and Other Intergovernmental Revenues.** Federal grants and assistance awards made on the basis of entitlement periods are recorded as intergovernmental receivables and revenues when entitlement occurs. All other grants are recorded as intergovernmental receivables and revenues when the related expenditures are incurred.

## NOTES TO FINANCIAL STATEMENTS (Continued)

## 3. SIGNIFICANT ACCOUNTING POLICIES (Concluded)

**Statements of Cash Flows.** The City presents Statements of Cash Flows for all proprietary fund types. These statements, which have been prepared utilizing the *direct method*, analyze the net increase or decrease in cash/cash equivalents by source. For purposes of the statement of cash flows, the City considers all highly liquid investments purchased with an original maturity of three months or less and the deposits in the investment funds to be cash equivalents.

**Use of Estimates.** The preparation of financial statements in conformity with generally accepted accounting principles requires management to make significant estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**Operating Revenues and Expenses.** Proprietary funds distinguish operating revenue and expenses from nonoperating revenue and expenses. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's ongoing operations. The principal operating revenues of the City's enterprise and internal service funds are charges for services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the enterprise and internal service funds include the cost of sales and service, administrative expenses and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenues and expenses.

## 4. EQUITY IN POOLED CASH AND INVESTMENTS

The City maintains an investment pool for all City funds. Each fund's portion of the investment pool is displayed on the balance sheet as "Equity in Pooled Cash and Investments." The Consolidated Investment Fund is eliminated for financial reporting purposes. In addition, the cash resources of the Pension Trust Fund and certain other funds are invested separately. The following is a reconciliation of deposit and investment balances (including both pooled cash and investments as well as pension trust fund balances) as of June 30, 2006:

		Investments	
	Cash	Equity in pooled cash and investments	Investments
Governmental activities	\$4,030,726	\$85,367,515	\$45,360,551
Business-type activities	6,818,786	50,842,295	11,942,970
Component units	1,558,326	359,213	18,062,405
Fiduciary funds	2,221,402	1,554	458,757,599
Totals	<u>\$14,629,240</u>	<u>\$136,570,577</u>	<u>\$534,123,525</u>
Total Equity in Pooled Cash and Investments and Investments		<u>\$670,694,102</u>	

## NOTES TO FINANCIAL STATEMENTS (Continued)

## 4. EQUITY IN POOLED CASH AND INVESTMENTS (continued)

U. S. Government Agencies	\$95,670,114
U. S. Treasury Bonds & Notes	100,617,117
Corporate Bonds and Notes	45,703,983
Commercial Paper	6,014,780
Repurchase Agreements	38,729,187
Domestic Stocks	293,660,050
Guaranteed Investment Contracts	12,420,020
Real Estate Participation Interest	47,995,608
Collateralized Mortgage Obligations	<u>14,967,711</u>
Total	<u>\$655,778,570</u>
Mutual Funds - unclassified as to risk	<u>14,915,532</u>
Total Investments	<u>\$670,694,102</u>

**Custodial Credit Risk for Deposits.** For deposits, custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to the government. At year end, the carrying amount of the City's deposits, including component units was \$14,629,240 and the bank balance was \$16,189,653. Of the bank balance, \$355,290 was covered by federal depository insurance. The remaining \$15,834,363 was exposed to custodial credit risk as it was uninsured and uncollateralized.

The City's investment policy does not specifically address this risk, although the City believes that due to the dollar amounts of cash deposits and the limits of FDIC Insurance, it is impractical to insure all bank deposits. As a result, the City evaluates each financial institution with which it deposits City funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

**Investments.** Michigan statutes and City policy authorize the City to invest in obligations of the U. S. Treasury, where interest and principal are backed by the full faith and credit of the U.S. Government (including GNMA), commercial paper (rated at the time of purchase by at least two of the major rating agencies within one of their two highest ratings), bankers acceptances, repurchase agreements, bank investment pools and the State Treasurer's Investment Pool. Pension fund investment policy is governed by the Pension Trustees and makes additional allowances for investments in equities, long-term securities and other securities of relatively higher risk.

**Custodial Credit Risk for Investments.** For investments, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investment policy requires that investment securities be held in third-party safekeeping by a designated institution and that the safekeeping agent follow the procedure of delivery vs. payment. As of June 30, 2006, none of the City's investments, excluding the mutual funds which are not subject to custodial credit risk, were exposed to risk since the securities are held in the City's name by the counterparty.

## NOTES TO FINANCIAL STATEMENTS (Continued)

## 4. EQUITY IN POOLED CASH AND INVESTMENTS (continued)

**Credit Risk.** As of June 30, 2006, all of the City's investments in securities of U.S. agencies were rated AAA by Standard & Poor's and Aaa by Moody's. Investments in commercial paper were rated A-1+ by Standard & Poor's and P1 by Moody's. The City also held investments in U.S. treasuries and money market mutual funds, which are not rated. All of the City's investments comply with its policy regarding the types of investments it may hold.

**Concentration of Credit Risk.** At June 30, 2006, the investment portfolio was concentrated as follows:

<u>Investment Type</u>	<u>Issuer</u>	<u>% Of Portfolio</u>
U.S. Treasuries		54.86%
U.S. Agencies	Federal National Mortgage Association	12.51%
	Federal Home Loan Bank	8.04%
	Federal Home Loan Mortgage Corporation	9.76%
	Federal Farm Credit Bank	3.60%
Commercial Paper	Barton Capital	1.38%
Repurchase Agreements	Morgan Stanley	4.87%
Cash and Cash Equivalents		4.91%
Certificates of Deposit	Bank of Ann Arbor	0.07%

The City's investment policy states that the amount of investments in Repurchase Agreements and U.S. Treasury securities shall at no time be less than 50% of the total portfolio and there shall be no maximum limits on these investments. The balance will not exceed the following maximum limits in each of the categories listed below as a percentage of the total portfolio.

35% in Instrumentality Securities
50% in Commercial Paper
30% in Bankers Acceptances
20% in FDIC insured Certificates of Deposit
30% in Money Market Mutual Funds
10% in Investment Pools
10% in Joint Interlocal Investment Ventures

No more than 5% of the total portfolio shall be invested in any one issuer of commercial paper or bankers' acceptances.

**Interest Rate Risk.** As of June 30, 2006, maturities of the City's debt securities were as follows:

	<u>Fair Value</u>	<u>City Investments</u> <u>Weighted Average Maturity</u>
U. S. Government Agencies	\$57,065,665	0.94 -1.99 years
U. S. Treasury Bonds & Notes	87,291,532	0.73 -1.08 years
Commercial Paper	6,014,780	0.03 - 0.17 years
Repurchase Agreements	<u>38,729,187</u>	
Total	<u>\$189,101,164</u>	

## NOTES TO FINANCIAL STATEMENTS (Continued)

## 4. EQUITY IN POOLED CASH AND INVESTMENTS (Continued)

Of the above balances, \$40,180,143 of U.S. agencies securities were callable.

To the extent possible, the Treasurer shall match investments with anticipated cash flow requirements. Unless matched to a specific cash flow liability and approved by the Chief Financial Officer in writing the City will not invest in securities maturing more than seven years from the date of purchase, and the weighted average maturity of the portfolio shall not exceed 3.5 years. The City shall maintain at least 10% of its total portfolio in instruments maturing in 90 days or less.

**PENSION TRUST FUNDS**

The City of Ann Arbor's Employees' Retirement System trust funds (the "trust funds" or the "System") deposits and investments are maintained separately from the City's pooled cash and investments, and are subject to separate investment policies and state statutes. Accordingly, the required disclosures for the System's deposits and investments are presented separately.

**Deposits** - The System does not maintain any checking or other demand/time deposit accounts. Amounts reported as cash and cash equivalents in the statement of plan net assets are composed entirely of short-term investments in money market accounts.

**Investments** - The Michigan Public Employees Retirement Systems' Investment Act, Public Act 314 of 1965, as amended, authorizes the System to invest in stocks, government and corporate securities, mortgages, real estate, and various other investment instruments, subject to certain limitations. The Retirement Board has the responsibility and authority to oversee the investment portfolio. Various professional investment managers are contracted to assist in managing the System's assets. All investment decisions are subject to Michigan law and the investment policy established by the Retirement Board.

The System's investments are held in a bank-administered trust fund. Following is a summary of the System's investments as of June 30, 2006:

U. S. Government Agencies	\$13,325,585
U. S. Treasury Bonds	22,917,798
Domestic Corporate Bonds	45,703,983
Domestic Stocks	293,660,050
Guaranteed Investment Contracts	12,420,020
Real Estate Participation Interest	47,995,608
Collateralized Mortgage Obligations	<u>14,967,711</u>
Total	<u>\$450,990,755</u>
Mutual Funds - unclassified as to risk	<u>7,766,844</u>
Total Investments	<u>\$458,757,599</u>

## NOTES TO FINANCIAL STATEMENTS (Continued)

## 4. EQUITY IN POOLED CASH AND INVESTMENTS (Continued)

**Credit Risk.** The System's investment policy provides that its investments in fixed income securities be limited to those rated investment grade by a nationally recognized statistical rating organization. As of June 30, 2006, the System's investments in securities of U.S. agencies were all rated AAA by Standard & Poor's. The System's investments in corporate securities were rated by Standard & Poor's as follows:

Pension Investments	
AAA	11,671,590
AA	1,066,967
A	8,477,500
BBB	7,147,158
BB	583,096
B	366,351
not rated	578,474
	<u>\$29,891,136</u>

**Custodial Credit Risk.** For investments, custodial credit risk is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The System's investment policy requires that investment securities be held in trust by a third-party institution in the System's name. As such, although uninsured and unregistered, the System's investments are not exposed to custodial credit risk since the securities are held by the counterparty's trust department in the System's name. Short-term investments in money market funds are not subject to custodial credit risk.

**Concentration of Credit Risk.** The System's investment policy requires that the securities of any one company or government agency should not exceed 5% of the total fund and no more than 30% of the total fund should be invested in any one industry.

**Interest Rate Risk.** As of June 30, 2006, maturities of the System's debt securities were as follows:

	Fair Value	Weighted Average Maturity (in years)
U.S. treasuries	\$22,917,798	5.28
U.S. agencies	13,325,585	3.61
Corporate bonds	29,891,136	5.85
Domestic corporate securities	14,967,711	2.34
Total debt securities	<u>\$81,102,230</u>	
Portfolio weighted average maturity		4.27

## NOTES TO FINANCIAL STATEMENTS (Continued)

## 4. EQUITY IN POOLED CASH AND INVESTMENTS (Continued)

## COMPONENT UNITS

## Deposits and investments

*Custodial Credit Risk – Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the DDA's deposits may not be returned. State law does not require and the DDA does not have a policy for deposit custodial credit risk. As of year end, \$199,856 of the DDA's bank balance of \$353,289 was exposed to custodial credit risk because it was uninsured and uncollateralized. For the deposits held at the City of Ann Arbor, it is impossible to determine custodial credit risk since the DDA's deposits are pooled with other City deposits.

*Custodial Credit Risk – Investment.* Following is a summary of the DDA's investments as of June 30, 2006:

U.S. Government Agencies	\$ 15,686,651
Mutual funds—unclassified as to risk	<u>2,375,754</u>
Total	<u>\$ 18,062,405</u>

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the DDA will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the DDA does not have a policy for investment custodial credit risk. \$2,375,754 of the investments listed above are unclassified as to custodial credit risk as the invested amount is part of an investment pool. \$15,686,651 of the investments above are uninsured and unregistered, with securities held by the agent in the Authority's name.

*Interest Rate Risk.* State law limits the allowable investments and the maturities of some of the allowable investments as identified in the list of investments above. The DDA does not have an investment policy that sets specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. For the U.S. Government Agencies investments, the total amount of \$15,686,651 has a maturity of one to five years. None of the other investments are subject to investment rate risk.

*Credit Risk.* State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. The DDA does not have an investment policy that sets specific limits in excess of state law on investment credit risk. As of June 30, 2006, all of the investments in U.S. Government Agencies were rated AAA by Standard & Poor's.

*Concentration of Credit Risk.* State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The DDA does not have an investment policy that limits concentration of credit risk. All investments held at year- end are reported above. At June 30, 2006, 87% of the DDA's investments were concentrated in U.S. Government Agencies.

## NOTES TO FINANCIAL STATEMENTS (Continued)

## 5. INTERFUND RECEIVABLES AND PAYABLES

	Due From Other Funds	Due To Other Funds
General Fund	\$3,463,540	\$446,702
Special Revenue Funds:		
Open Space & Parkland Preservation Millage	33,605	1,889,098
Nonmajor Special Revenue Funds	375,464	1,224,505
Debt Service Funds:		
Nonmajor Debt Service Funds	133,692	414,317
Capital Projects Funds:		
Maintenance Facility		119
Nonmajor Capital Projects Funds	300,170	162,585
Enterprise Funds		
Water Supply System	\$601,845	\$511,816
Sewage Disposal System	545,932	346,198
Parking System		5,629
Market	2,891	458
Golf Courses	46,092	849,931
Airport	969	8,226
Stormwater Sewer System	61,954	3,420
Solid Waste	4,070	185,206
Total Enterprise Funds	1,263,753	1,910,884
Internal Service Funds	659,002	180,079
Permanent Fund		
Elizabeth R. Dean Permanent Fund		937
Total	\$ 6,229,226	\$ 6,229,226

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances". Interfund balances at year-end relate to items accrued after year-end related to interfund transfers. These items are repaid immediately in the new year.



## NOTES TO FINANCIAL STATEMENTS (Continued)

## 6. PROPERTY TAXES

Each July 1st the City property tax is levied and becomes a lien on the related property, the value of which is equalized by the State of Michigan and limited by Act 415 of 1994. The City's operating tax rate levied July 1, 2005, as controlled by the Headlee Amendment, Act 415 and City Charter, is 6.2318 mills. Other tax rates are as follows: Employee Benefits (2.0772), Refuse Collection (2.4925), Ann Arbor Transportation Authority (2.0772), Street Repair (1.9527), Parks Repair and Restoration (0.4651), Parks Rehabilitation and Development (0.4562), Open Space and Parkland Preservation Millage (0.4829), and Debt Service (0.580). Real and personal property located in the City as of December 31, 2004 were assessed and equalized at \$5,633,531,900, representing 50% of estimated current value. Act 415 of 1994 limits annual increases in taxable value to 5% or the Consumer Price Index, whichever is less. The 2005 taxable value on March 2, 2006 was \$4,220,748,359. Property taxes are due July 31st of each year and any delinquent real property taxes are turned over to Washtenaw County for collection the following March 1st. The County pays municipalities from a revolving fund for delinquent real property taxes. Delinquent personal property taxes are negligible.

## 7. CHANGES IN CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006 was as follows:

	Beginning Balance July 1, 2005, as restated	Additions	Retirements	Ending Balance June 30, 2006
<b>Governmental Activities</b>				
Non-Depreciable Assets:				
Land	\$24,340,135	\$4,701,278	\$	\$29,041,413
Construction in progress	4,147,559	7,327,250	(878,029)	10,596,780
Depreciable Assets:				
Buildings	22,299,050			22,299,050
Leasehold improvements	8,646			8,646
Improvements other than buildings	8,061,568	617,022		8,678,590
Machinery and equipment	14,423,868	1,388,241	(104,351)	15,707,758
Vehicles	11,232,742	663,762	(780,375)	11,116,129
Infrastructure	660,414,878	8,584,392	(2,243,185)	666,756,085
<b>Total at historical cost</b>	<b>744,928,446</b>	<b>23,281,945</b>	<b>(4,005,940)</b>	<b>764,204,451</b>
Less accumulated depreciation for:				
Buildings	(9,480,348)	(551,513)		(10,031,861)
Improvements other than buildings	(4,478,655)	(334,298)		(4,812,953)
Equipment and vehicles	(18,993,459)	(1,958,358)	820,545	(20,131,272)
Infrastructure	(84,645,400)	(6,342,364)	2,190,888	(88,796,876)
<b>Total accumulated depreciation</b>	<b>(117,597,862)</b>	<b>(9,186,533)</b>	<b>3,011,433</b>	<b>(123,772,962)</b>
<b>Governmental activities capital assets, net</b>	<b>\$627,330,584</b>	<b>\$14,095,412</b>	<b>(\$994,507)</b>	<b>\$640,431,489</b>

## NOTES TO FINANCIAL STATEMENTS (Continued)

## 7. CHANGES IN CAPITAL ASSETS (Concluded)

	Beginning Balance July 1, 2005, as restated	Additions	Retirements	Ending Balance June 30, 2006
<b>Business-type Activities</b>				
Non-Depreciable Assets:				
Land	\$7,374,728	\$	\$	\$7,374,728
Construction in progress	28,960,164	10,400,410	(5,838,890)	33,521,684
Depreciable Assets:				
Buildings	109,052,634	7,057		109,059,691
Improvements other than buildings	132,537,330	5,759,698		138,297,028
Machinery and equipment	35,427,841	317,662	(131,012)	35,614,491
Vehicles	7,644,186	594,601	(224,348)	8,014,439
<b>Total at historical cost</b>	<b>320,996,883</b>	<b>17,079,428</b>	<b>(6,194,250)</b>	<b>331,882,061</b>
Less accumulated depreciation for:				
Buildings	(41,337,801)	(2,700,082)		(\$44,037,883)
Improvements other than buildings	(56,796,282)	(2,227,549)		(59,023,831)
Equipment and vehicles	(30,710,287)	(3,609,819)	326,214	(33,993,892)
<b>Total accumulated depreciation</b>	<b>(128,844,370)</b>	<b>(8,537,450)</b>	<b>326,214</b>	<b>(137,055,606)</b>
<b>Business-type activities capital assets, net</b>	<b>\$192,152,513</b>	<b>\$8,541,978</b>	<b>(\$5,868,036)</b>	<b>\$194,826,455</b>

## Depreciation expense was charged to governmental functions as follows:

General government	\$213,054
Public safety	906,186
Public services	778,498
Highways and streets	6,342,364
Culture and Recreation	529,527
Social services	119,719
Information services	225,610
Unallocated depreciation	71,575
	<u>\$9,186,533</u>

Capital assets held by the City's internal service funds are charged to the various functions based on their usage of assets.

## NOTES TO FINANCIAL STATEMENTS (Continued)

## 8. LEASES

**Operating Lease Obligations Payable.** The City is the lessee of various properties (primarily office and storage space, as well as parking facilities) under operating leases for periods through 2009. The expenses and related revenues in connection with the leases are recorded in the General, Special Revenue and Pension Trust Funds. The total rent expense for fiscal year 2006 was \$836,105. The following is a table of future minimum noncancellable lease payments by the City:

2007	\$ 788,300
2008	331,002
2009	<u>192,894</u>
Total	<u>\$1,312,196</u>

The City as lessee has other lease arrangements, which have been appropriately accounted for as operating leases. Minimum lease payments payable on such leases are immaterial in amount.

**Operating Lease Obligations Receivable.** The City is the lessor of various parking, office and airport facilities under operating leases for periods through 2019. Revenues and the related expenses for these leases are recorded in the Enterprise Funds. The total rent revenue for fiscal year 2006 was \$302,473. The following is a table of future minimum noncancellable lease payments to the City:

2007	\$ 196,685
2008	196,685
2009	185,627
2010	212,547
2011	147,314
2012-2016	695,815
2017-2019	<u>251,424</u>
Total	<u>\$1,886,097</u>

The City as lessor has other lease arrangements which have been appropriately accounted for as operating leases. Minimum lease payments receivable on such leases are immaterial in amount.

## NOTES TO FINANCIAL STATEMENTS (Continued)

## 8. LEASES (Concluded)

**Capital Lease Obligations Payable.** The City has entered into certain lease agreements as lessee for financing the purchase of (primarily) various types of equipment, as well as several drain construction projects. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the date of their inception. The following is an analysis of the items recorded under capital leases as of June 30, 2006:

<u>Asset Type</u>	<u>Enterprise Fund</u>
Equipment	\$ 275,483
Drains	<u>1,783,156</u>
	2,058,639
Less: accumulated depreciation	<u>397,430</u>
Net book value	<u>\$1,661,209</u>

The following is a schedule of the future minimum lease payments under these capital leases, and the present value of the net minimum lease payments at June 30, 2006:

<u>Year Ending June 30</u>	<u>Enterprise Fund</u>
2007	\$187,528
2008	195,330
2009	102,079
2010	98,757
2011	<u>95,380</u>
Total minimum lease payments	679,074
Less: amount representing interest	<u>78,313</u>
Present value of future minimum lease payments	<u>\$ 600,761</u>

## NOTES TO FINANCIAL STATEMENTS (Continued)

## 9. LONG-TERM OBLIGATIONS

The following is a summary of the governmental activities long-term debt obligations (including accrued compensated absences) of the City for the year ended June 30, 2006:

	Governmental Activities					Total Principal	Governmental Activities Accrued Compensated Absences	Total Governmental Activities Debt
	Capital Projects Bonds	General Obligation Portion of Special Assessment Bonds	General Obligation Portion of Special Revenue Bonds	Special Assessment Bonds	Other Long-term Debt			
Bonds and other debt payable at July 1, 2005	\$12,760,000	\$891,205	\$3,737,779	\$1,524,636	\$3,548,050	\$22,461,670	\$15,298,314	37,759,984
Debt issued and other increases:								
Debt issued/accrued	24,635,000		20,250,000			\$44,885,000	4,020,050	48,905,050
Amortization of bond discounts		304	1,929	596		2,829		2,829
Debt retired and other decreases:								
Decrease in accrued compensated absences							4,993,506	4,993,506
Bond discounts	163,878		141,933			305,811		
Debt retired	1,820,000	135,000	140,000	365,000	48,050	2,508,050		2,508,050
Bonds and other debt payable at June 30, 2006	\$35,411,122	\$756,509	\$23,707,775	\$1,160,232	\$3,500,000	\$64,535,638	\$14,324,858	\$78,860,496
Balance due within one year	\$2,460,000	\$140,000	\$445,000	\$360,000		\$3,405,000	\$958,645	\$4,363,645

(Continued)

## NOTES TO FINANCIAL STATEMENTS (Continued)

## 9. LONG-TERM OBLIGATIONS (Continued)

The following is a summary of the business-type long-term debt (including accrued compensated absences in enterprise funds) transactions of the City for the year ended June 30, 2006:

	Business-Type Activities					Total	Component
	Ann Arbor Building Authority Bonds	Revenue Bonds	Other Long-Term Debt	Other Bonds	Accrued Compensated Absences	Proprietary Fund Type Debt	Unit Downtown Development Authority Bonds
Bonds and other debt payable at July 1, 2005	\$28,270,000	\$71,405,000	\$2,259,727	\$1,405,550	\$2,945,902	\$106,286,179	\$6,399,450
Debt issued and other increases:							
Debt issued/accrued	13,305,000		1,026,645		965,590	15,297,235	3,906
Debt retired and other decreases:							
Decrease in accrued compensated absences					969,436	969,436	
Debt refunded	13,250,000					13,250,000	
Bond discounts							33,851
Debt retired	1,770,000	4,655,000	\$314,133	344,053		7,083,186	1,085,947
Bonds and other debt payable at June 30, 2006	\$26,555,000	\$66,750,000	\$2,972,239	\$1,061,497	\$2,942,056	\$100,280,792	\$5,283,558
Balance due within one year	\$1,845,000	\$4,710,000	\$160,016	\$349,387	\$167,230	\$7,231,633	\$1,120,613

(Continued)

## NOTES TO FINANCIAL STATEMENTS (Continued)

## 9. LONG-TERM OBLIGATIONS (Continued)

General Obligation Bonds are collateralized by the full faith and credit of the City; Other Long-Term Debt is collateralized by the revenues of the related funds or the full faith and credit of the City or General Fund appropriations. General Obligation Bonds' requirements will be met primarily through the debt service property tax levy. Special Assessment Bonds are serviced by the underlying special assessments. The Special Assessment Bonds are backed by the full faith and credit of the City to the extent that liens foreclosed against property involved in the special assessment districts are insufficient to retire the outstanding bonds.

Other obligations are as follows: Revenue Bonds are serviced by the Water Supply System (\$34,175,000) in bond principal at June 30, 2006; Sewage Disposal System (\$32,160,000) and Stormwater Disposal System (\$415,000). Other Long-Term Debt includes various long-term obligations (notes and contracts) paid from general operations and other sources. In addition, the City received \$105,391 from the Michigan Municipal Bond Authority (MMBA) from the Drinking Water Revolving Fund during fiscal year 2006. At June 30, 2006, the outstanding balance was \$452,891. The City also received \$921,254 from the MMBA from the Strategic Water Quality Initiatives Fund during fiscal year 2006. At June 30, 2006, the outstanding balance was \$1,885,826.

Other Bonds will be serviced from the revenues of the Downtown Development Authority for the Parking System (\$1,061,497). Various limitations and restrictions are contained in the various bond indentures. The City is in compliance with all significant limitations and restrictions.

Additionally, during the fiscal year, the City issued \$13,305,000 in refunding bonds to partially advance refund \$6,550,000 of the 1999 Ann Arbor Building Authority Bonds and \$6,700,000 of the 2000 Ann Arbor Building Authority Bonds. The net proceeds were used to purchase U.S. Government securities, which were deposited in an irrevocable trust with an escrow agent to provide for future debt service payments. As a result, the bonds are considered defeased and the liability for the bonds has been removed from the balance sheet. The City advance refunded the bonds to reduce its total debt service payments by \$812,682 over the next fourteen years and to obtain an economic gain (difference between the present value for the debt service payments on the old and new debt) of \$662,859. In accordance with GASB #23, *Accounting and Financial Reporting for Refunding of Debt Reported by Proprietary Activities*, the loss on bond refunding has been amortized over the life of the old debt or the new debt, whichever is shorter. As the old and new debt was still outstanding at the end of the fiscal year, the City has deferred the entire loss of \$949,794 in the Parking System Enterprise Fund.

In fiscal years 2005 and 2006, the City defeased certain revenue bonds by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments on the defeased bonds. This advance refunding met the requirements of an in-substance debt defeasance. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. The balances of the defeased bonds outstanding at June 30, 2006 are as follows:

1999 Ann Arbor Building Authority Bonds	\$6,550,000
2000 Ann Arbor Building Authority Bonds	\$6,700,000
Water Supply System Revenue Bonds Series U	\$3,025,000
Water Supply System Revenue Bonds Series V	\$3,700,000

## NOTES TO FINANCIAL STATEMENTS (Continued)

## 9. LONG TERM OBLIGATIONS (Continued)

Below is a summary of general long-term debt (with various issue dates) and annual debt service requirements as of June 30, 2006:

Governmental Activities Debt													
Fiscal Year Ending	General Obligation Portion						Special Assessment Bonds		Other Debt		Total Governmental Activities Debt		
	Capital Projects Bonds Principal	Interest	Special Assessment Bonds Principal	Interest	Special Revenue Bonds Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Total
2007	\$2,460,000	\$1,266,323	\$140,000	\$34,894	\$445,000	\$995,080	\$360,000	\$51,142	\$	\$136,149	\$3,405,000	\$2,483,588	\$5,888,588
2008	2,500,000	1,431,607	75,000	29,570	475,000	978,802	125,000	37,772		136,522	3,175,000	2,614,273	5,789,273
2009	2,560,000	1,321,820	75,000	26,190	510,000	960,795	125,000	31,930	3,500,000	68,261	6,770,000	2,408,996	9,178,996
2010	2,590,000	1,211,507	80,000	22,725	550,000	941,035	125,000	25,945			3,345,000	2,201,212	5,546,212
2011	2,625,000	1,101,556	80,000	18,925	585,000	919,360	120,000	19,960			3,410,000	2,059,801	5,469,801
2012	1,315,000	1,017,105	80,000	15,075	625,000	895,905	90,000	14,893			2,110,000	1,942,978	4,052,978
2013	1,345,000	958,255	80,000	11,175	650,000	871,216	80,000	10,617			2,155,000	1,861,263	4,006,263
2014	760,000	913,832	80,000	7,225	685,000	845,366	80,000	6,710			1,595,000	1,773,133	3,368,133
2015	785,000	883,830	20,000	3,225	720,000	817,914	25,000	2,750			1,550,000	1,707,719	3,257,719
2016	820,000	852,432	25,000	2,325	755,000	788,835	20,000	1,625			1,620,000	1,645,217	3,265,217
2017	860,000	819,630	25,000	1,175	795,000	757,953	15,000	705			1,695,000	1,579,463	3,274,463
2018	895,000	785,232			835,000	725,200					1,730,000	1,510,432	3,240,432
2019	935,000	748,312			875,000	690,605					1,810,000	1,438,917	3,248,917
2020	980,000	708,575			915,000	653,534					1,895,000	1,362,109	3,257,109
2021	1,025,000	664,475			965,000	614,176					1,990,000	1,278,661	3,268,661
2022	1,070,000	618,350			1,010,000	572,470					2,080,000	1,190,820	3,270,820
2023	1,115,000	570,200			1,060,000	527,888					2,175,000	1,098,088	3,273,088
2024	1,165,000	520,025			800,000	481,938					1,965,000	1,001,963	2,966,963
2025	1,220,000	467,600			840,000	446,663					2,060,000	914,263	2,974,263
2026	1,275,000	412,700			885,000	408,698					2,160,000	821,398	2,981,398
2027	1,330,000	354,050			930,000	368,503					2,260,000	722,563	2,982,563
2028	1,390,000	292,538			975,000	326,339					2,365,000	618,877	2,983,877
2029	1,455,000	228,250			1,030,000	280,913					2,485,000	509,163	2,994,163
2030	1,520,000	155,500			1,080,000	232,875					2,600,000	388,375	2,988,375
2031	1,590,000	79,500			1,135,000	182,419					2,725,000	261,919	2,986,919
2032					1,195,000	129,319					1,195,000	129,319	1,324,319
2033					1,255,000	73,519					1,255,000	73,519	1,328,519
2034					1,320,000	14,850					1,320,000	14,850	1,334,850
	\$35,675,000	\$18,383,204	\$760,000	\$172,504	\$23,900,000	\$16,502,170	\$1,165,000	\$204,049	\$3,500,000	\$340,932	\$64,900,000	\$35,602,859	\$100,502,859
Interest Ranges	4.00 - 5.50%		3.40 - 6.25%		2.50 - 4.50%		3.40 - 6.40%		3.60 - 5.15%				



## NOTES TO FINANCIAL STATEMENTS (Continued)

## 9. LONG TERM OBLIGATIONS (Concluded)

Below is a summary of the business-type activity and component unit debt (with various issue dates) and annual debt service requirements as of June 30, 2006:

Fiscal Year Ending	Enterprise Funds								Component Units					
	Ann Arbor Building Authority Bonds		Water, Sewer & Storm Revenue Bonds		Other Debt		Other Bonds		Total Enterprise Debt			Downtown Development Authority		
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Total	Principal	Interest	Total
2007	\$1,846,000	\$1,170,428	\$4,710,000	\$2,500,741	\$160,016	\$23,289	\$349,387	\$30,759	\$7,064,403	\$3,725,217	\$10,789,620	\$1,120,613	\$199,327	\$1,319,940
2008	1,810,000	1,095,959	4,805,000	2,327,408	121,105	17,089	352,054	31,683	7,088,159	3,472,139	10,560,298	1,157,946	154,672	1,312,618
2009	1,710,000	1,021,862	4,905,000	2,140,761	168,505	15,671	360,056	4,556	7,143,561	3,182,850	10,326,411	1,199,944	107,213	1,307,157
2010	1,790,000	842,261	4,940,000	1,942,997	91,948	6,809			6,821,948	2,892,067	9,714,015	575,000	72,825	647,825
2011	1,870,000	864,322	5,150,000	1,750,555	91,948	3,432			7,111,948	2,618,309	9,730,257	610,000	50,400	660,400
2012	1,945,000	787,628	5,110,000	1,564,925					7,065,000	2,352,553	9,407,553	650,000	26,000	676,000
2013	2,025,000	702,591	5,250,000	1,375,023					7,275,000	2,077,614	9,352,614			
2014	2,095,000	605,364	3,310,000	1,205,719					5,405,000	1,811,083	7,216,083			
2015	2,160,000	504,086	2,750,000	1,097,670					4,910,000	1,601,756	6,511,756			
2016	2,130,000	402,701	2,820,000	992,574					4,950,000	1,395,275	6,345,275			
2017	2,195,000	298,064	2,915,000	862,095					5,110,000	1,180,159	6,290,159			
2018	1,665,000	212,510	2,290,000	779,042					3,955,000	991,552	4,946,552			
2019	1,710,000	128,890	2,365,000	689,923					4,075,000	818,813	4,893,813			
2020	1,070,000	56,950	2,465,000	594,681					3,535,000	651,631	4,186,631			
2021	260,000	22,417	2,570,000	493,706					2,830,000	516,123	3,346,123			
2022	275,000	9,167	2,665,000	386,574					2,940,000	395,741	3,335,741			
2023			2,760,000	272,567					2,760,000	272,567	3,032,567			
2024			2,845,000	153,496					2,845,000	153,496	2,998,496			
2025			2,125,000	45,156					2,125,000	45,156	2,170,156			
	<u>\$26,555,000</u>	<u>\$8,825,200</u>	<u>\$66,750,000</u>	<u>\$21,195,613</u>	<u>\$633,522</u>	<u>\$66,290</u>	<u>\$1,061,497</u>	<u>\$66,998</u>	<u>\$35,000,019</u>	<u>\$30,154,101</u>	<u>\$125,154,120</u>	<u>\$5,313,503</u>	<u>\$610,437</u>	<u>\$5,923,940</u>
Interest Ranges	2.00 - 5.50%		2.00 - 7.30%		3.50 - 6.80%		3.90 - 4.05%					3.25 - 5.00%		

## NOTES TO FINANCIAL STATEMENTS (Continued)

## 10. TRANSFERS

A reconciliation of the interfund transfers is as follows:

	Transfers In	Transfers Out
General Fund	\$685,874	\$1,768,182
Maintenance Facility	8,958,000	7,114,701
Open Space & Parkland Preservation Millage		620,468
Water Supply System	2,003,192	3,618,211
Sewage Disposal System	235,192	5,309,959
Solid Waste	418,872	669,981
Hydroelectric Power System		314,242
Golf Courses	354,621	
Airport		9,218
Stormwater System	300,000	524,478
Nonmajor governmental funds	12,173,846	3,435,637
Internal Service Funds	711,641	2,456,161
Total Transfers	\$25,841,238	\$25,841,238

Transfers are used to: (1) move unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations; (2) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; and (3) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service funds as debt service payments become due.

## NOTES TO FINANCIAL STATEMENTS (Continued)

## 11. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 1969, the City established an Insurance Fund (an Internal Service Fund) to account for and finance its uninsured risk of loss. Under this program, the Insurance Fund currently provides coverage for up to a maximum of \$1,000,000 for each general liability claim, \$50,000 for each property damage claim, and Blue Cross Blue Shield health insurance claims. The City purchases (where coverage is available and properly priced) commercial insurance for claims in excess of coverage provided by the Fund as well as full coverage for workers' compensation claims. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

All funds of the City participate in the insurance program and make payments to the Insurance Fund based on estimates of the amounts needed to pay prior and current-year claims and to establish a reserve for Incurred But Not Reported (IBNR) losses. The IBNR reserve was \$1,676,915 at June 30, 2006 and is included in Estimated Claims Payable. The total Estimated Claims Payable of \$2,635,056 is reflected in the Insurance fund at June 30, 2006. A liability for claims must be reported if information prior to the issuance of the financial statements indicates it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the fund's claim liability amount in fiscal years 2004, 2005, and 2006 are summarized below:

	<u>Beginning of Fiscal Year Liability</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Balance at Fiscal Year End</u>
2004	4,048,656	5,569,474	(6,820,388)	2,797,742
2005	2,797,742	14,794,093	(11,947,402)	5,644,433
2006	5,644,433	9,721,423	(12,730,800)	2,635,056

## 12. DEFERRED COMPENSATION PLAN

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all permanent City employees, permits each to defer a portion of their salary until future years. The deferred compensation is not available for distribution to employees until termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights, are held in trust, with the City serving as trustee, for the exclusive benefit of the plan participants and their beneficiaries. The assets shall not be diverted to any other purpose. All provisions of the plan, and the trust, are in conformance with Internal Revenue Code Section 457.

The plan's funds are excluded from the financial statements in conformance with the reporting and disclosure requirements in GASB Statement Number 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*.

## NOTES TO FINANCIAL STATEMENTS (Continued)

## 13. POST RETIREMENT BENEFITS

In addition to providing pension benefits, the City provides certain health care and life insurance benefits for retired employees in accordance with Ann Arbor City Code Chapter 21. Substantially all the City's employees may become eligible for these benefits if they retire directly from City employment. These and similar benefits for active employees are provided by various insurance companies. Health insurance benefits are provided by either a health maintenance organization or through an administrative service contract under which the City reimburses the administrator for claims paid plus an administration fee. Life and health insurance premiums are based on the forecasted benefits to be paid. The City records the cost of providing these benefits as expenses when paid. The costs of providing these benefits for 817 retirees for the year ending June 30, 2006 was estimated at \$7,292,343.

The City and the Retirement System Board entered into an agreement allowed under Michigan statutes, Act 28 for reimbursement of current health care premiums for retirees and the Pension System reimbursed the Insurance Fund for 2005-2006 retirees health care costs of \$6,997,668. Act 28 allows the Pension System to pay current retiree health care benefits from investment earnings on employer assets in excess of the actuarial rate of return.

This agreement between the City and Retirement System Board allows amounts designated from the Pension and Benefit tax levy and budgeted in operating service areas for payment of health and life insurance premiums to be transferred to a VEBA Trust. The Trust was established by the City to accumulate funds for the future payment of retiree health and life insurance costs. The agreement will continue for up to ten years and allows for a maximum contribution to the VEBA Trust until it is fully funded.

The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2008.

## 14. RETIREMENT COMMITMENTS

**Plan Description.** The City of Ann Arbor Employees' Retirement Plan is a single-employer defined benefit plan administered by the City of Ann Arbor Employees' Retirement System (CAAERS). CAAERS provides retirement, disability and death benefits to plan members and beneficiaries. Cost of living adjustments are provided to members and beneficiaries per the Ann Arbor City Code Section 1:573 of Chapter 18. Chapter 17.1 of the Ann Arbor City Charter assigns the authority to establish and amend benefit provisions to City Council. CAAERS issues a publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to City of Ann Arbor Employees' Retirement System, 301 E. Liberty St., Suite 680, Ann Arbor, Michigan, 48104 or by calling 734-994-4590.

**Summary of Significant Accounting Policies**

**Basis of Accounting.** CAAERS' financial statements are prepared using the accrual basis of accounting. Plan member and employer contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

**Method Used to Value Investments.** Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments that do not have an established market price are reported at estimated fair value. There are no concentrations where investments are five percent or more of the net plan assets.

## NOTES TO FINANCIAL STATEMENTS (Continued)

## 14. RETIREMENT COMMITMENTS (Concluded)

**Funding Policy.** The contribution requirements of plan members are established and may be amended by the City Council. Plan members are required to contribute 5% of annual compensation. The City is required to contribute at an actuarially determined rate; the rate for the most current actuarial report, was 2.09% of annual covered payroll. Administrative costs of CAAERS are financed through investment earnings.

**Annual Pension Cost and Net Pension Obligation.** The City's annual pension cost and net pension obligation to CAAERS for the current year were as follows (dollar amounts in thousands):

Fiscal Year Ending June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2005	\$1,045	100.0%	-
2004	-	100.0%	-
2003	-	100.0%	-

The annual required contribution for the current year was determined as part of the June 30, 2003, actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 7.0% rate of return (net of administrative expenses) and (b) projected salary increases of .04% to 6.3% per year. Both (a) and (b) included an inflation component of 3.5%. The assumptions did not include postretirement benefit increases which are funded as a pay-as-you-go basis through City Council appropriation. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. There is no unfunded actuarial accrued liability to be amortized. The excess is amortized over fifteen and twenty-eight years and used as a credit against the normal cost.

## 15. ENDOWMENT FUNDS

In 1964, the City became the recipient of an endowment from Elizabeth Dean which is recorded as a permanent trust fund. The corpus of the trust is to remain invested and may not be liquidated in order to generate investment income. This investment income is to be used for the purchase and maintenance of trees in the City of Ann Arbor. Net appreciation on investments is not considered investment income until realized. The amount in the Elizabeth Dean fund is shown as restricted for endowment on the Statement of Net Assets.

## 16. SIGNIFICANT COMMITMENTS

As of June 30, 2006, the City had \$6,010,935 in construction commitments for various projects including resurfacing of streets, bridge reconstruction and other road improvements.

## NOTES TO FINANCIAL STATEMENTS (Continued)

## 17. SUBSEQUENT EVENTS

Subsequent to year-end, the City settled two of eight union contracts with the Teamsters Local 214 covering the period of July 1, 2006 thru June 30, 2009 and with the Police Professional Assistants covering the period July 1, 2006 through June 30, 2008.

## 18. CONTINGENT LIABILITIES

**Litigation.** Various lawsuits are pending against the City, some of which are for substantial amounts. On the basis of opinions and information furnished by the City Attorney, it is the judgment of City management that the ultimate liability, if any, resulting from such lawsuits would not materially affect the financial position of the City.

**Landfill.** The City owns and maintains a closed landfill in full compliance with Michigan Department of Environmental Quality (MDEQ) requirements. The City had received approval for an onsite and (interim) offsite Remedial Action Plan (RAP) that has been implemented. This implementation included a slurry wall almost two miles in length enclosing most of the landfill. As part of these requirements, the City has posted a \$1,000,000 letter of credit to ensure compliance with the landfill cleanup regulations. The City is working on a final RAP and evaluating the feasibility of treating the collected landfill groundwater prior to discharge to the sanitary sewer. Treating the water onsite with discharge to surface or groundwater may reduce annual operating costs because of reduce payments for discharge to the sanitary system. Capital costs associated with the landfill cleanup are funded by a series of voter-approved bonds totaling \$28,000,000. Operating and maintenance costs for the closed landfill are funded out of the annual solid waste budget. Therefore, no liability has been accrued in the Statement of Net Assets. These costs will be funded through the City's earmarked solid waste (refuse collection) property tax levy. The projects to be accomplished are subject to major changes (both in the nature of the work to be accomplished and in the cost thereof) due to inflation, changes in technology or changes in regulatory requirements.

**Grants.** Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, primarily the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts to be immaterial.

**Other.** Effective 1998, the City and the VEBA Board of Trustees entered into a funding agreement for the allocation of Retirement System annual excess earnings (if any) to payment of City retiree health benefit costs thereby allowing the City to allocate the equivalent budgetary amount to prefund the City's VEBA. This agreement and all transfers were executed in compliance with Michigan Public Act 28 (PA 28). It has come to the City's attention that the VEBA may not have fully complied with Section 420 of the Internal Revenue Code with respect to the transfers to the VEBA. The City has committed to compliance with both State and Federal law (as applicable) and will address any required compliance matters through the Internal Revenue Service Voluntary Correction Program. The City expects that any compliance matters which may need to be addressed will not adversely affect the tax qualified status of the Plan.

## NOTES TO FINANCIAL STATEMENTS (Continued)

## 19. EXTERNALLY RESTRICTED NET ASSETS

The following funds represent funds whose net assets are not available to meet the City's ongoing needs as they are subject to external restriction, either by the source of the funding (i.e., state or federal funding) or by the nature of the funding (i.e. millage funding):

Major Streets	\$8,223,654
Local Streets	2,431,818
Community Television Network	2,198,261
Street Repair Millage	15,387,618
Metro Expansion	549,573
Michigan Justice Training	99,926
Parks Repair & Maintenance Millage	67,295
Parks Repair & Restoration Millage	576,526
Parks Rehab & Development Millage	3,897,078
Court Facilities	890,467
Federal Equitable Sharing Forfeiture	102,520
Police and Fire Relief	666,004
Open Space & Parkland Preservation	<u>22,826,726</u>
Net Assets Externally Restricted	<u>\$57,917,466</u>

## 20. RESTATEMENT OF FUND BALANCE/NET ASSETS

As of July 1, 2005, the Information Technology fund moved from a Special Revenue fund to an Internal Service fund. The project management activities of Public Services became an Internal Service fund. The Smart Zone Fund became a Component Unit of the City of Ann Arbor. The accumulated depreciation for the Downtown Development Authority was removed from the Governmental Activities. The Hydroelectric Power Enterprise Fund closed to the General Fund and all the fixed assets were moved to Governmental Activities. A long term receivable recorded as governmental activities moved to business type activities. As a result, certain restatements were necessary. The following is an explanation of the adjustments to the beginning balance as of July 1, 2005, for the governmental funds fund balance, the enterprise funds net assets and the government-wide statement of net assets.

	Governmental Activities	Business-Type Activities	Total Governmental Funds
Net Assets/Fund Balance at July 1, 2005	\$ 662,050,583	\$ 165,393,178	\$ 66,344,745
Fund Type Changed to Internal Service			(1,021,327)
Fund Type Changed to Component Unit (Smart Zone)	(16,032)		(16,032)
Fund Type Changed to Component Unit (DDA)	140,095		
Fixed Assets Moved to Governmental Activities	1,254,662	(1,254,662)	
Special Assessment Adjustment	(1,171,944)	1,171,944	
Restated Net Assets/Fund Balance at July 1, 2005	<u>\$ 662,257,364</u>	<u>\$ 165,310,460</u>	<u>\$ 65,307,386</u>

**21. SPECIAL ITEM-EMERALD ASH BORER**

During fiscal year 2005, the City estimated the cost of the Emerald Ash borer liability at \$4.1 million which was recorded as a liability in the government-wide financial statements. During the 05-06 fiscal year, the City set up a new special revenue fund, the Tree Removal Fund, and appropriated an expenditure budget of \$2,144,178. The City spent \$1.7 million to remove dead and dying trees during the year. For the 06-07 fiscal year, the City has appropriated additional funding for tree removal. As the remaining liability for tree removal cannot be reasonably estimated and funding has been appropriated in the 06-07 budget, the \$4.1 million has been removed as a liability in the government-wide financial statements.



## **REQUIRED SUPPLEMENTARY INFORMATION**

### **GENERAL FUND**

To account for resources traditionally associated with governments which are not required to be accounted for in another fund.

### **SPECIAL REVENUE FUND**

Open Space and Parkland Preservation Millage - to account for funds derived from property tax millage and bond proceeds earmarked for parks acquisition and development rights for open space.

CITY OF ANN ARBOR  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
(Continued)

1. BUDGETS AND BUDGETARY ACCOUNTING

The City follows these procedures in establishing the budgetary data reflected in the basic financial statements:

1. The City uses the "Target Based" budgeting technique. Under this system, the City Administrator determines funding levels for each department by matching funding needs with available revenue. Targets are established based on anticipated revenues and growth in expenditures.
2. In late November, each department is given a "bottom line" amount for operations. The department then determines the best way to allocate funds among expenses to remain within the target while meeting the assigned goals.
3. Department budget requests are then submitted with expenditures outlined and areas of concern identified so that adjustments can be made as needed. By allowing the departments to determine how funds are spent within the department, the operating departments have a greater ownership in how they provide services.
4. The City Administrator's recommended budget is submitted to City Council at the second meeting in April. The City Council, with at least seven affirmative votes, must adopt the budget no later than the end of its second meeting in May. According to City Charter, should the City Council not adopt an amended Budget, the City Administrator's recommended budget will automatically take effect as submitted.
5. After the budget has been adopted, City Council may amend the budget by a concurring vote of not fewer than eight members of City Council.

Formal budgetary integration is employed as a management control device during the year. The City presents a comparison of annual budgets to actual results for all major governmental funds. Budgeted revenue amounts represent the original budget modified by Council-authorized adjustments during the year which were contingent upon new or additional revenue sources. Budgeted expenditure amounts represent original appropriations adjusted for supplemental appropriations during the year. The amount of \$713,630 was made in fiscal 2006 for supplemental appropriations. Budgets are prepared in accordance with Generally Accepted Accounting Principles using the modified-accrual basis of accounting.

The City Administrator is authorized to transfer appropriated funds between major expenditure categories within departments. However, any revisions which alter the total appropriations of any department must be approved by City Council. For budgeting purposes, the General Fund is composed of several departments. Expenditures may not legally exceed appropriations at the department level.

The City utilizes an encumbrance system as a management control technique to assist in controlling expenditures. Under this procedure, encumbrances representing purchase orders, contracts and other commitments are reported as reservations of fund balances at year-end. All appropriations lapse at the end of the fiscal year, except for certain capital projects which are approved without regard to fiscal year. For any of these projects which are under construction at year-end, the appropriations are allowed to carry forward with the amount being adopted for the current budget year.

CITY OF ANN ARBOR  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
(Concluded)

2. EXPENDITURES IN EXCESS OF APPROPRIATIONS

Expenditures exceeded appropriations in the following categories:

	Budget	Actual	Negative Variance
General Fund:			
Police department	\$24,592,293	\$24,783,869	\$(191,576)
Fire department	11,872,522	12,058,017	(185,495)
Miscellaneous	529,750	532,781	(3,031)
Transfers out	1,603,289	1,768,182	(164,893)
Open Space and Parkland Preservation:			
Total expenditures	4,830,423	5,108,802	(278,379)
Transfers out	505,000	620,468	(115,468)
Bond issuance costs		141,934	(143,934)

General Fund:

Police Department	\$191,576
Fire Department	185,495

These deficits were attributable to higher than anticipated severance costs.

Miscellaneous	\$ 3,031
Transfers out	\$164,893

These deficits are offset by favorable variances in other areas.

Police and Fire Relief Fund:

This fund exceeded its expenditure budget by \$7,062 due to unforeseen expenditures. This unfavorable variance is offset by a favorable revenue variance of \$12,804.

Open Space and Parkland Preservation Fund:

This fund exceeds its expenditures due to higher than anticipated land purchase costs and by bond issuance costs that are not budgeted and taken from bond proceeds.

CITY OF ANN ARBOR  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
For the Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (negative)
Revenues:				
Taxes:				
General operations	\$26,032,333	\$26,032,333	\$26,002,775	(\$29,558)
Transportation (AATA)	8,665,151	8,665,151	8,666,903	1,752
Employee benefits	8,665,151	8,665,151	8,666,903	1,752
Interest, penalties, payments in lieu of taxes and excess of roll	2,140,296	2,140,296	2,250,478	110,182
Total taxes	45,502,931	45,502,931	45,587,059	84,128
Licenses, permits and registrations	1,104,797	1,102,572	1,099,663	(2,909)
Federal grants	20,000	22,951	2,952	(19,999)
State shared revenues and grants	10,882,700	10,742,700	11,469,467	726,767
Charges for services:				
Police department	1,611,659	1,611,659	1,623,242	11,583
Fire department	442,600	442,600	774,143	331,543
Ann Arbor Transportation Authority	85,854	85,854	86,770	916
Construction overhead	367,016	367,016	301,986	(65,030)
Central services	27,000	27,000	46,537	19,537
Recreation facilities	2,216,130	2,316,130	2,186,275	(129,855)
Cemetery	6,500	6,500	6,075	(425)
Public services	1,184,725	1,184,725	1,260,492	75,767
Miscellaneous	371,906	371,906	401,290	29,384
Total charges for services	6,313,390	6,413,390	6,686,810	273,420

CITY OF ANN ARBOR  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
For the Year Ended June 30, 2006  
(Continued)

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (negative)
Revenues (Concluded):				
Fines and forfeits:				
Standing violations	\$2,897,420	\$2,897,420	\$3,064,222	\$166,802
District court	2,485,400	2,485,400	2,540,016	54,616
Total fines and forfeits	5,382,820	5,382,820	5,604,238	221,418
Investment income	268,200	268,200	1,432,514	1,164,314
Rentals	9,000	57,000	122,882	65,882
Miscellaneous revenue:				
Sale of property and equipment	750	750	2,447	1,697
Other	184,004	212,002	105,685	(106,317)
Total miscellaneous revenue	184,754	212,752	108,132	(104,620)
Total Revenues	69,468,592	69,705,316	72,113,717	2,408,401
Expenditures:				
General government:				
Mayor and Council	305,185	305,185	276,616	28,569
Administration	601,689	601,689	558,552	43,137
Human resources	1,245,178	1,245,178	1,215,508	29,670
Attorney	1,658,515	1,658,515	1,648,819	9,696
Clerk/Elections	677,903	680,854	671,294	9,560
Finance	3,632,840	3,632,840	3,576,985	55,855
Environmental Coordination Services	150,540	150,540	149,122	1,418
Public services	3,292,666	3,530,129	3,423,284	106,845
District court	3,686,853	3,746,653	3,635,102	111,551
Contingencies	1,145,836	236,914		236,914
Miscellaneous	175,130	529,750	532,781	(3,031)
Municipal service charge	(4,236,321)	(4,236,321)	(3,678,493)	(557,828)
Total general government expenditures	12,335,814	12,081,926	12,009,570	72,356

CITY OF ANN ARBOR  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
For the Year Ended June 30, 2006  
(Concluded)

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	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (negative)
Expenditures (Concluded):				
Public safety:				
Police department	\$24,362,422	\$24,592,293	\$24,783,869	(\$191,576)
Fire department	11,518,703	11,872,522	12,058,017	(185,495)
Building department	2,045,910	2,043,686	1,937,024	106,662
Total public safety expenditures	37,927,035	38,508,501	38,778,910	(270,409)
Social services:				
Transfers to other agencies	1,929,269	2,452,045	2,381,144	70,901
Other	38,000	38,000	32,220	5,780
Total social services expenditures	1,967,269	2,490,045	2,413,364	76,681
Culture and recreation:				
Parks and recreation	3,535,701	3,635,701	3,616,894	18,807
Parks operation & forestry	6,539,507	3,889,507	3,751,360	138,147
Historic district commission	39,000	39,000	6,832	32,168
Total culture and recreation expenditures	10,114,208	7,564,208	7,375,086	189,122
Other:				
Public transportation	8,751,802	8,751,802	8,666,141	85,661
Total other expenditures	8,751,802	8,751,802	8,666,141	85,661
Total Expenditures	71,096,128	69,396,482	69,243,071	153,411
Excess of Revenues over Expenditures	(1,627,536)	308,834	2,870,646	2,561,812
Other Financing Sources (Uses):				
Transfers in (Note 10)	3,155,609	505,609	685,874	180,265
Transfers out (Note 10)	(1,603,289)	(1,603,289)	(1,768,182)	(164,893)
Total Other Financing Sources (Uses)	1,552,320	(1,097,680)	(1,082,308)	15,372
Net change in fund balance	(75,216)	(788,846)	1,788,338	2,577,184
Fund Balance - July 1, 2005	75,216	788,846	10,660,367	9,871,521
Fund Balance - June 30, 2006			\$12,448,705	\$12,448,705

CITY OF ANN ARBOR  
BUDGETARY COMPARISON SCHEDULE  
OPEN SPACE AND PARKLAND PRESERVATION FUND  
For the Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (negative)
Revenues:				
Taxes	\$1,995,945	\$1,995,945	\$2,014,851	\$18,906
Federal grants			190,642	190,642
Investment income			772,493	772,493
Miscellaneous			317	317
Total Revenues	<u>1,995,945</u>	<u>1,995,945</u>	<u>2,978,303</u>	<u>982,358</u>
Expenditures:				
Current:				
Parks and recreation	5,335,423	4,830,423	406,440	4,423,983
Capital outlay			4,702,362	(4,702,362)
Total Expenditures	<u>5,335,423</u>	<u>4,830,423</u>	<u>5,108,802</u>	<u>(278,379)</u>
Excess of Revenues over (under) Expenditures	<u>(3,339,478)</u>	<u>(2,834,478)</u>	<u>(2,130,499)</u>	<u>703,979</u>
Other Financing Sources (Uses):				
Transfers out (Note 10)		(505,000)	(620,468)	(115,468)
Issuance of debt			20,250,000	20,250,000
Bond issuance costs			(141,934)	(141,934)
Total Other Financing Sources (Uses)		<u>(505,000)</u>	<u>19,487,598</u>	<u>19,992,598</u>
Net change in fund balances	<u>(3,339,478)</u>	<u>(3,339,478)</u>	<u>17,357,099</u>	<u>20,696,577</u>
Fund Balances - July 1, 2005	<u>3,339,478</u>	<u>3,339,478</u>	<u>5,469,627</u>	<u>2,130,149</u>
Fund Balances - June 30, 2006			<u>\$22,826,726</u>	<u>\$22,826,726</u>

CITY OF ANN ARBOR  
EMPLOYEES' RETIREMENT SYSTEM  
REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS

(amounts expressed in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded (Overfunded) AAL [UAAL (OAAL)] (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL (OAAL) as a Percentage of Covered Payroll [(b-a)/c]
6/30/2005	\$398,690	\$384,369	(\$14,321)	103.7%	\$47,225	-30.3%
6/30/2004	409,324	370,409	(38,915)	110.5%	47,109	-82.6%
6/30/2003	417,623	353,620	(64,003)	118.1%	46,213	-138.5%
6/30/2002	426,440	336,340	(90,100)	126.8%	46,744	-192.8%
6/30/2001	425,538	304,349	(121,189)	139.8%	47,449	-255.4%
6/30/2000	407,468	258,286	(149,182)	157.8%	44,092	-338.3%



CITY OF ANN ARBOR  
EMPLOYEES' RETIREMENT SYSTEM  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF EMPLOYER CONTRIBUTIONS

(amounts expressed in thousands)

<u>Year Ended June 30</u>	<u>Annual Required Contribution</u>	<u>Percentage Contribution</u>
2005	\$1,045	100%
2004	0	100%
2003	0	100%
2002	0	100%
2001	0	100%
2000	1,316	100%

## NONMAJOR SPECIAL REVENUE FUNDS

Major Streets - to account for repairs, maintenance and construction on the City's major streets. The revenues consist primarily of State-shared gasoline and weight tax collections.

Local Streets - to account for repairs, maintenance and construction on the City's local streets. The revenues consist primarily of State-shared gasoline and weight tax collections.

Community Development - to account for funds received from the federal government for the City's Community Development Block grant program.

HOME Program- to account for funds received from the federal government for the City's Community Development HOME grant program.

Affordable Housing - to account for funding of selected affordable housing projects with the General Fund and federal funds.

Community Television Network - to account for the costs of running the City's community access channels on the local cable television system. Revenues are derived primarily from franchise fees.

Homeland Security - to account for federal Office of Homeland Security grant money.

Construction Code - to account for the costs of planning and development activities related to construction. Revenues are derived primarily from licenses and permits.

Alternative Transportation- to account for funding set aside for the City's alternative transportation program.

Street Repair Millage - to account for the proceeds of a special millage to repair streets.

Tree Removal & Disposal - to account for the costs associated with the removal and disposal of dead and dying trees due to the Emerald Ash borer infestation.

Drug Enforcement - to account for confiscated property and money related to drug law enforcement activity and provide funds for future enforcement activity.

Metro Expansion- to account for the monies passed through from telecom companies for the purpose of maintaining the roadway (above, below, and adjacent to) right of ways.

Michigan Justice Training - to account for State funds used for law enforcement training.

Parks Maintenance and Repair Millage - to account for funds derived from property tax millage earmarked for parks maintenance.

Parks Repair and Restoration Millage - to account for funds derived from property tax millage earmarked for parks' repair and restoration.

Parks Rehabilitation and Development Millage - to account for funds derived from property tax millage earmarked for parks' improvements.

## NONMAJOR SPECIAL REVENUE FUNDS (continued)

Special Assistance - to account for funds provided by a utility bill checkoff to provide assistance to needy citizens.

Parks Memorial and Contributions- to account for the proceeds of various contributions to the Parks System to erect memorials or finance special parks improvement projects.

Court Facilities - to account for a court fee to pay for facility improvements for the district court.

Local Law Enforcement Block Grant- to account for federal grant monies received for fingerprinting equipment.

Major Grants - to account for various grant monies other than community development.

Federal Equitable Sharing Forfeitures- to account for monies received as a result of joint operations with federal law enforcement. These monies are restricted for use in future law enforcement activities.

Bandemer - to account for rental income used to maintain and operate Bandemer Park.

Cemetery Perpetual Care - to account for the receipt and expenditures of fees paid for the perpetual care of gravesites at the City-owned Fairview Cemetery.

Local Forfeiture- to account for monies received as a result of police seizures from non-federal investigations. These monies are restricted for use in future law enforcement activities.

Energy Projects - to account for funding of City Energy Consumption Improvement projects.

Police and Fire Relief - to account for the receipt of investment earnings on previously transferred General fund monies. These earnings are used to subsidize the incomes of certain beneficiaries of deceased police officers and firefighters.

#### NONMAJOR DEBT SERVICE FUNDS

General Debt Service - to accumulate tax revenues and transfers in for payment of principal and interest on non-bonded debt and general obligation bonds sold for various capital purposes.

Special Assessment Bonds-Debt Service - to accumulate revenues for payment of principal and interest on general obligation bonds sold to finance various special assessment projects. The primary sources of revenues are special assessments and related revenues (including interest and penalties).

#### NONMAJOR CAPITAL PROJECTS FUNDS

1991/1992/1993 Environmental Bonds - to account for bond proceeds and related revenues expended for improvements to the City's landfill.

General Capital Improvements - to account for capital project expenditures for various non-bonded improvements to certain City-owned facilities.

Special Assessments - to account for bond proceeds and related revenues expended for various public improvements financed in part by assessments against benefited properties.

Municipal Center- to account for revenues expended for the construction of a new City facility for Police and District Courts.

#### NONMAJOR PERMANENT FUND

Elizabeth R. Dean Trust Fund - to account for monies provided by a private bequest to finance tree planting and maintenance. The principal amount of the bequest is to remain intact and invested. Investment earnings are used for the above stated purposes.

CITY OF ANN ARBOR  
NONMAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET  
June 30, 2005

Special Revenue

	Major Streets	Local Streets	Community Development	Home Program	Affordable Housing	Community Television Network	Homeland Security Fund	Construction Code	Alternative Transportation	Street Repair Mileage	Tree Removal & Disposal	Drug Enforcement	Metro Expansion	Michigan Justice Training	Parks Maintenance & Repair Mileage	Parks Repair & Restoration Mileage
<b>ASSETS</b>																
Cash	\$1,238,285	\$331,463	\$41,751	\$4,303	\$	\$35,430	\$	\$24,818	\$	\$50,768	\$	\$	\$329,976	\$17,495	\$43,560	\$912
Equity in pooled cash and investments (Note 4)	6,134,468	1,905,563			665,146	1,847,196		1,356,140	723,844	15,978,314	470,432	10,596	258,599	86,070	24,693	656,019
Investments, at fair value (Note 4)																
Receivables:																
Taxes										48,250					2,295	9,389
Accounts	49,279					376,199	135,381	43,145		312,831						5,509
Special assessments																
Accrued interest and dividends																
Improvement charges																
Loans			129,206	789,323												
Unbilled district costs																
Loss: Allowance for uncollectibles	(25,900)							(20,188)		(154,869)					(2,295)	(8,852)
Due from other funds (Note 5)	97,586	4,424			1,000	313	10,329			179,342					2,232	52,930
Due from other governments	931,268	264,052	202,525	92,333												
<b>Total Assets</b>	<b>\$8,425,007</b>	<b>\$2,505,501</b>	<b>\$373,482</b>	<b>\$885,959</b>	<b>\$666,146</b>	<b>\$2,259,138</b>	<b>\$145,710</b>	<b>\$1,403,915</b>	<b>\$723,844</b>	<b>\$16,415,634</b>	<b>\$470,432</b>	<b>\$10,596</b>	<b>\$588,576</b>	<b>\$105,565</b>	<b>\$70,485</b>	<b>\$715,907</b>
<b>LIABILITIES AND FUND BALANCES</b>																
Liabilities:																
Accounts payable	\$84,333	\$20,346	\$37,903	\$909	\$2,500	\$23,090	\$	\$10,011	\$28,977	\$424,953	\$19,174	\$544	\$35,237	\$148	\$3,190	\$55,930
Accrued liabilities	34,864	15,283	5,694	1,935	118	13,410	905	46,034	344	16,203	5,020		3,519			12,029
Accrued interest payable																
Due to other funds (Note 5)	32,355	37,896	200,679	93,792		5,265	144,805	157	1,012	585,270	482	6,834	246	5,481		53,254
Deposits	10,000					10,000										
Deferred revenue			129,206	789,323												
Accrued compensated absences (Note 9)	39,801	158				9,112				1,590						18,168
<b>Total Liabilities</b>	<b>201,353</b>	<b>73,683</b>	<b>373,482</b>	<b>885,959</b>	<b>2,616</b>	<b>60,877</b>	<b>145,710</b>	<b>56,202</b>	<b>30,333</b>	<b>1,028,016</b>	<b>25,576</b>	<b>7,378</b>	<b>39,002</b>	<b>5,639</b>	<b>3,190</b>	<b>139,381</b>
Fund Balances:																
Reserved for encumbrances	25,097								211	4,737,485	444,856		23,681			12,648
Reserved for endowment																
Reserved for debt service																
Unreserved balances:																
Designated, nonmajor capital projects funds																
Undesignated, nonmajor special revenue funds	8,198,557	2,431,818			663,530	2,198,261		1,347,713	693,300	10,650,163		3,218	525,892	99,928	67,295	563,878
<b>Total Fund Balances</b>	<b>8,223,654</b>	<b>2,431,818</b>			<b>663,530</b>	<b>2,198,261</b>		<b>1,347,713</b>	<b>693,511</b>	<b>15,387,618</b>	<b>444,856</b>	<b>3,218</b>	<b>549,573</b>	<b>99,928</b>	<b>67,295</b>	<b>576,526</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$8,425,007</b>	<b>\$2,505,501</b>	<b>\$373,482</b>	<b>\$885,959</b>	<b>\$666,146</b>	<b>\$2,259,138</b>	<b>\$145,710</b>	<b>\$1,403,915</b>	<b>\$723,844</b>	<b>\$16,415,634</b>	<b>\$470,432</b>	<b>\$10,596</b>	<b>\$588,575</b>	<b>\$105,565</b>	<b>\$70,485</b>	<b>\$715,907</b>

CITY OF ANN ARBOR  
NONMAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET  
June 30, 2008  
(continued)

	Special Revenue											
	Parks Rehab & Development M&E	Special Assistance	Parks Memorial & Contributions	Court Facilities	Local Law Enforcement Block Grant	Major Grants	Federal Equitable Sharing Forfeiture	Bandomar	Cemetery Perpetual Care	Local Forfeiture	Energy Projects	Police and Fire Relief
ASSETS												
Cash	\$13,599	\$216	\$28,910	\$1,278	\$7,806	\$	\$49,187	\$	\$	\$	\$	\$
Equity in pooled cash and investments (Note 4)	3,893,947	8,985	6,143	899,584			80,805	280,265	57,407		441,413	566,777
Investments, at fair value (Note 4)												106,289
Receivables:												
Taxes	11,505											
Accounts					8,864	178,238		500				
Special assessments												
Accrued interest and dividends												
Improvement charges												
Loans												
Unbilled district costs												
Loss: Allowance for uncollectibles	(10,977)											
Due from other funds (Note 5)	24,158									3,150		
Due from other governments												
Total Assets	\$3,932,232	\$9,201	\$35,053	\$900,862	\$16,670	\$178,238	\$129,992	\$280,765	\$57,407	\$3,150	\$441,413	\$673,056
LIABILITIES AND FUND BALANCES												
Liabilities:												
Accounts payable	\$27,372	\$7	\$3,208	\$10,395	\$	\$32,128	\$27,472	\$19	\$	\$	\$	\$7,062
Accrued liabilities	2,538					2,814					388	
Accrued interest payable					16,670	36,899					6	
Due to other funds (Note 5)	3,392											
Deposits												
Deferred revenue						99,469						
Accrued compensated absences (Note 9)	1,852											
Total Liabilities	35,154	7	3,206	10,395	16,670	171,310	27,472	19			394	7,062
Fund Balances:												
Reserved for encumbrances	162,757			32,431								
Reserved for endowment												
Reserved for debt service												
Unreserved balances:												
Designated, nonmajor capital projects funds												
Undesignated, nonmajor special revenue funds	3,734,321	9,194	31,847	858,036		6,928	102,520	280,746	57,407	3,150	441,019	666,004
Total Fund Balances	3,897,078	9,194	31,847	880,467		6,928	102,520	280,746	57,407	3,150	441,019	666,004
Total Liabilities and Fund Balances	\$3,932,232	\$9,201	\$35,053	\$900,862	\$16,670	\$178,238	\$129,992	\$280,765	\$57,407	\$3,150	\$441,413	\$673,056

CITY OF ANN ARBOR  
NONMAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET  
June 30, 2006  
(concluded)

	Debt Service		Capital Projects				Permanent	
	General Debt Service	Special Assessment Bonds - Debt Service	1991/1992/1993 Environmental Bonds	General Capital Improvements	Special Assessments	Municipal Center	Elizabeth R. Dean Trust	Total
<b>ASSETS</b>								
Cash	\$83,814	\$22,377	\$	\$2,748	\$38,349	\$	\$10,948	\$2,377,892
Equity in pooled cash and investments (Note 4)	195,292	120,812	3,463,251	523,109	16	7,870,497	66,593	48,594,096
Investments, at fair value (Note 4)		1,314,324					2,015,105	3,435,718
Receivables:								
Taxes	16,383							88,822
Accounts				2,955				1,112,941
Special assessments		611,027						611,027
Accrued interest and dividends		10,478					19,584	30,062
Improvement charges		11,488						11,488
Loans								918,529
Unbilled district costs		187,423						187,423
Less: Allowance for uncollectibles	(15,674)							(238,755)
Due from other funds (Note 5)	6,910	126,782	120	139,083	160,967			809,326
Due from other governments								1,480,177
<b>Total Assets</b>	<b>\$285,725</b>	<b>\$2,404,811</b>	<b>\$3,463,371</b>	<b>\$667,935</b>	<b>\$189,332</b>	<b>\$7,870,497</b>	<b>\$2,112,230</b>	<b>\$59,428,846</b>
<b>LIABILITIES AND FUND BALANCES</b>								
Liabilities:								
Accounts payable	\$	\$9,967	\$34,564	\$2,718	\$	\$	\$7,793	\$909,948
Accrued liabilities						788		162,784
Accrued interest payable	\$81,902							81,902
Due to other funds (Note 5)	40,416	373,901	9,736	52,572	100,277		937	1,802,344
Deposits								20,000
Deferred revenue		809,938						1,827,938
Accrued compensated absences (Note 9)								70,681
<b>Total Liabilities</b>	<b>122,318</b>	<b>1,193,806</b>	<b>44,300</b>	<b>55,290</b>	<b>100,277</b>	<b>788</b>	<b>8,730</b>	<b>4,875,595</b>
Fund Balances:								
Reserved for encumbrances			290,660					5,729,808
Reserved for endowment							2,103,500	2,103,500
Reserved for debt service	164,407	1,211,005						1,375,412
Unreserved balances:								
Designated, nonmajor capital projects funds			3,128,411	612,645	99,055	7,869,709		11,709,820
Undesignated, nonmajor special revenue funds								33,634,713
<b>Total Fund Balances</b>	<b>164,407</b>	<b>1,211,005</b>	<b>3,418,071</b>	<b>612,645</b>	<b>99,055</b>	<b>7,869,709</b>	<b>2,103,500</b>	<b>54,553,251</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$286,725</b>	<b>\$2,404,811</b>	<b>\$3,463,371</b>	<b>\$667,935</b>	<b>\$189,332</b>	<b>\$7,870,497</b>	<b>\$2,112,230</b>	<b>\$59,428,846</b>

CITY OF ANN ARBOR  
NONMAJOR GOVERNMENTAL FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
For the Year Ended June 30, 2006

	Special Revenue Funds															
	Major Streets	Local Streets	Community Development	Home Program	Affordable Housing	Community Television Network	Homeland Security Grant	Construction Code	Alternative Transportation	Street Repair Millage	Tree Removal & Disposal	Drug Enforcement	Metro Expansion	Michigan Justice Training	Parks Maintenance & Repair Millage	Parks Repair & Restoration Millage
Revenues:																
Taxes	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$8,161,936	\$	\$	\$	\$	\$	\$1,940,592
Special assessments/improvement charges								2,129,668								
Licenses, permits and registration																
Federal grants			1,288,754	1,320,422			659,574			200,530			687,058	35,561		
State shared revenues and grants	5,760,306	1,599,145														
Charges for services	601,374	173,207				1,386,335							500			
Fines and forfeits												6,872				
Interest and penalties																
Investment income																
Rentals	182,351	51,230			19,929	63,603		30,240	10,475	446,026	26,109	343	6,684	2,754	1,255	41,246
Contributions and donations																
Sale of property and equipment					109,320											1,023
Intra-governmental sales	157,850															
Miscellaneous	21,454									26,322					1,513	12,040
Total Revenues	6,723,335	1,823,582	1,288,754	1,320,422	129,249	1,451,938	659,574	2,159,908	10,475	8,824,814	26,109	7,215	696,242	39,315	2,778	1,994,891
Expenditures:																
Current:																
Administration	956,713		396,747	103,079					83,549							
Police							428,033					9,091		17,057		
Street repair and maintenance	4,230,298	1,309,516								7,827,100			146,669			1,598,677
Parks and recreation																
Park operations and forestry											1,725,431					
Planning and development								2,199,931								
Community access television						1,053,621										
Urban redevelopment and housing			892,007	1,217,343	79,077											
Capital outlay						112,723	231,541									
Debt Service:																
Principal retirement																
Interest and fiscal charges																
Total Expenditures	5,187,011	1,309,516	1,288,754	1,320,422	79,077	1,166,344	659,574	2,199,931	83,549	7,827,100	1,725,431	9,091	146,669	17,057		1,598,677
Excess of Revenues over (under) Expenditures	1,536,324	514,066			50,172	285,594		(40,023)	(73,074)	997,714	(1,699,322)	(1,876)	549,573	22,258	2,778	396,214
Other Financing Sources (Uses):																
Transfers in (Note 10)	135,088				100,000			250,000	375,677	491,532	2,144,178					
Transfers out (Note 10)	(1,505,225)	(129,592)			(88,075)	(40,000)		(17,097)		(517,291)						(500,000)
Total Other Financing Sources (Uses)	(1,370,137)	(129,592)			31,925	(40,000)		232,903	375,677	(25,759)	2,144,178					(500,000)
Net change in fund balances	166,187	384,474			82,097	245,594		192,880	302,603	971,955	444,856	(1,876)	549,573	22,258	2,778	(103,786)
Fund Balances - July 1, 2005	8,057,467	2,047,344			\$81,433	1,952,667		1,154,833	390,908	14,415,683		5,094		77,688	64,517	680,312
Fund Balances - June 30, 2006	\$8,223,654	\$2,431,818			\$663,530	\$2,198,281		\$1,347,713	\$693,511	\$15,387,618	\$444,856	\$3,218	\$549,573	\$99,920	\$87,295	\$576,526



CITY OF ANN ARBOR  
NONMAJOR GOVERNMENTAL FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
For the Year Ended June 30, 2006  
(continued)

	Parks Rehab & Development Millage	Special Assistance	Parks Memorial & Contributions	Court Facilities	Local Law Enforcement Block Grant	Major Grants	Federal Equitable Sharing Forfeiture	Bandemer	Cemetery Perpetual Care	Local Forfeiture	Energy Projects	Police and Fire Relief
Revenues:												
Taxes	\$1,903,448	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Special assessments/improvement charges												
Licenses, permits and registration												
Federal grants					36,307	563,986						
State shared revenues and grants	38,000					56,100						
Charges for services									2,900			
Fines and forfeits				201,336			182,119			3,150		
Interest and penalties												
Investment income	97,838	200	55	32,465	317		2,772	9,007	1,637		17,146	22,804
Rentals								8,000				
Contributions and donations		4,778	37,430			3,002					9,632	
Sale of property and equipment												
Intra-governmental sales												
Miscellaneous	504											
<b>Total Revenues</b>	<b>2,039,788</b>	<b>4,978</b>	<b>37,485</b>	<b>233,801</b>	<b>36,624</b>	<b>633,088</b>	<b>184,891</b>	<b>15,007</b>	<b>4,537</b>	<b>3,150</b>	<b>26,778</b>	<b>22,804</b>
Expenditures:												
Current:												
Administration				235,629		345,220					117,926	
Police					18,213	48,545	122,226					7,052
Street repair and maintenance												
Parks and recreation	801,957		5,638					2,823				
Park operations and forestry												
Planning and development						3,002						
Community access television												
Urban redevelopment and housing												
Capital outlay	97,800			63,060	21,994	268,099						
Debt Service:												
Principal retirement												
Interest and fiscal charges												
<b>Total Expenditures</b>	<b>899,757</b>		<b>5,638</b>	<b>298,689</b>	<b>40,207</b>	<b>654,866</b>	<b>122,226</b>	<b>2,823</b>			<b>117,926</b>	<b>7,052</b>
Excess of Revenues over (under) Expenditures	<b>1,140,031</b>	<b>4,978</b>	<b>31,847</b>	<b>(64,888)</b>	<b>(3,583)</b>	<b>(31,778)</b>	<b>62,665</b>	<b>12,184</b>	<b>4,537</b>	<b>3,150</b>	<b>(91,148)</b>	<b>15,742</b>
Other Financing Sources (Uses):												
Transfers in (Note 10)					3,583	31,778					53,645	
Transfers out (Note 10)												
<b>Total Other Financing Sources (Uses)</b>					<b>3,583</b>	<b>31,778</b>					<b>53,645</b>	
<b>Net change in fund balances</b>	<b>1,140,031</b>	<b>4,978</b>	<b>31,847</b>	<b>(64,888)</b>			<b>62,665</b>	<b>12,184</b>	<b>4,537</b>	<b>3,150</b>	<b>(37,503)</b>	<b>15,742</b>
Fund Balances - July 1, 2005	<b>2,757,047</b>	<b>4,216</b>		<b>855,355</b>		<b>6,928</b>	<b>39,855</b>	<b>268,562</b>	<b>52,870</b>		<b>478,522</b>	<b>650,262</b>
Fund Balances - June 30, 2006	<b>\$3,897,078</b>	<b>\$9,194</b>	<b>\$31,847</b>	<b>\$890,467</b>		<b>\$6,928</b>	<b>\$102,520</b>	<b>\$280,746</b>	<b>\$57,407</b>	<b>\$3,150</b>	<b>\$441,019</b>	<b>\$666,004</b>

CITY OF ANN ARBOR  
NONMAJOR GOVERNMENTAL FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
For the Year Ended June 30, 2006  
(concluded)

	Debt Service		Capital Projects				Permanent	
	General Debt Service	Special Assessment Bonds - Debt Service	1991/1992/1993 Environmental Bonds	General Capital Improvements	Special Assessments	Municipal Center	Elizabeth R. Dean Trust	Total
Revenues:								
Taxes	\$2,419,990	\$	\$	\$	\$	\$	\$	\$14,415,956
Special assessments/improvement charges		122,147						122,147
Licenses, permits and registration								2,129,668
Federal grants								3,869,043
State shared revenues and grants				154,140				8,541,840
Charges for services				155,469		599,790		2,921,575
Fines and forfeits								393,477
Interest and penalties		39,894						39,894
Investment income	1,737	52,611	93,925	17,886	1,343	246,545	36,845	1,519,386
Rentals								5,000
Contributions and donations								164,162
Sale of property and equipment								1,023
Intra-governmental sales								157,850
Miscellaneous	443		20,013				119	82,408
<b>Total Revenues</b>	<b>2,422,170</b>	<b>214,652</b>	<b>113,938</b>	<b>327,495</b>	<b>1,343</b>	<b>846,335</b>	<b>36,964</b>	<b>34,304,429</b>
Expenditures:								
Current:								
Administration	8,661							2,247,524
Police								650,227
Street repair and maintenance								13,513,583
Parks and recreation							48,188	2,457,283
Park operations and forestry								1,725,431
Planning and development								2,193,931
Community access television								1,056,623
Urban redevelopment and housing								2,188,427
Capital outlay				231,282		91,327		1,117,826
Debt Service:								
Principal retirement	2,143,050	365,000						2,508,050
Interest and fiscal charges	1,255,688	73,478						1,329,166
<b>Total Expenditures</b>	<b>3,407,399</b>	<b>438,478</b>		<b>231,282</b>		<b>91,327</b>	<b>48,188</b>	<b>39,994,071</b>
Excess of Revenues over (under) Expenditures	(985,229)	(223,826)	113,938	96,213	1,343	755,008	(11,224)	3,370,358
Other Financing Sources (Uses):								
Transfers in (Note 10)	1,049,524	124,091		139,083	160,966	7,114,701		12,173,846
Transfers out (Note 10)		(210,820)	(303,607)	(43,812)	(100,118)			(3,435,637)
<b>Total Other Financing Sources (Uses)</b>	<b>1,049,524</b>	<b>(86,729)</b>	<b>(303,607)</b>	<b>95,271</b>	<b>60,848</b>	<b>7,114,701</b>		<b>8,738,209</b>
Net change in fund balances	64,295	(310,555)	(189,669)	191,484	62,191	7,869,709	(11,224)	12,108,567
Fund Balances - July 1, 2005	100,112	1,521,560	3,608,740	421,161	36,854		2,114,724	42,444,584
Fund Balances - June 30, 2006	\$164,407	\$1,211,005	\$3,419,071	\$612,645	\$99,055	\$7,869,709	\$2,103,500	\$54,553,251

CITY OF ANN ARBOR  
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCES - BUDGETARY COMPARISONS  
 For the Year Ended June 30, 2006

	Major Streets			Local Streets			Community Development		
	Modified Budget	Actual	Variance with Final Budget Positive (Negative)	Modified Budget	Actual	Variance with Final Budget Positive (Negative)	Modified Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:									
Taxes									
Special assessments/improvement charges									
Federal grants									
State shared revenues and grants	\$5,008,547	\$5,760,306	(\$246,241)	\$1,651,085	\$1,509,145	(\$51,940)	\$2,350,704	\$1,288,754	(\$1,061,950)
Licenses, permits and registration									
Charges for services	200	601,374	601,174	150,000	173,207	23,207			
Fines and forfeits									
Interest and penalties									
Investment income	170,000	182,351	12,351	45,900	51,230	5,330			
Rentals									
Contributions and donations									
Sale of property and equipment									
Intra-governmental sales	43,000	157,850	114,850						
Miscellaneous	12,000	21,454	9,454						
<b>Total Revenues</b>	<b>6,231,747</b>	<b>6,723,335</b>	<b>491,588</b>	<b>1,846,985</b>	<b>1,823,582</b>	<b>(23,403)</b>	<b>2,350,704</b>	<b>1,288,754</b>	<b>(1,061,950)</b>
Expenditures:									
Current:									
Administration	1,110,796	909,185	201,601				816,263	396,747	419,516
Police									
Street repair and maintenance	5,374,452	4,277,816	1,096,636	1,642,393	1,309,516	332,877			
Planning and development									
Parks and recreation									
Parks operations & forestry									
Solid waste									
Community access television									
Urban redevelopment and housing							1,534,441	892,007	642,434
Information Services									
Capital outlay									
Debt service:									
Principal retirement									
Interest and fiscal charges									
<b>Total Expenditures</b>	<b>6,485,248</b>	<b>5,187,011</b>	<b>1,298,237</b>	<b>1,642,393</b>	<b>1,309,516</b>	<b>332,877</b>	<b>2,350,704</b>	<b>1,288,754</b>	<b>1,061,950</b>
<b>Excess of Revenues over (under) Expenditures</b>	<b>(253,501)</b>	<b>1,536,324</b>	<b>1,789,825</b>	<b>204,592</b>	<b>514,066</b>	<b>309,474</b>			
Other Financing Sources (Uses):									
Transfers in (Note 10)	645,000	135,088	(509,912)						
Transfers out (Note 10)	(1,105,475)	(1,505,225)	(399,750)	(204,592)	(129,592)	75,000			
<b>Total Other Financing Sources (Uses)</b>	<b>(460,475)</b>	<b>(1,370,137)</b>	<b>(909,662)</b>	<b>(204,592)</b>	<b>(129,592)</b>	<b>75,000</b>			
<b>Net changes in fund balances</b>	<b>(713,976)</b>	<b>166,187</b>	<b>890,163</b>		<b>384,474</b>	<b>384,474</b>			
<b>Fund Balances - July 1, 2005</b>	<b>997,891</b>	<b>8,057,467</b>	<b>7,059,576</b>		<b>2,047,344</b>	<b>2,047,344</b>			
<b>Fund Balances - June 30, 2006</b>	<b>\$283,915</b>	<b>\$8,223,654</b>	<b>\$7,939,739</b>		<b>\$2,431,818</b>	<b>\$2,431,818</b>			

CITY OF ANN ARBOR  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES - BUDGETARY COMPARISONS  
For the Year Ended June 30, 2006  
(continued)

	Home Program			Affordable Housing			Community Television Network		
	Modified Budget	Actual	Variance with Final Budget Positive (Negative)	Modified Budget	Actual	Variance with Final Budget Positive (Negative)	Modified Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:									
Taxes									
Special assessments/improvement charges									
Federal grants	\$3,052,616	\$1,320,422	(\$1,732,194)						
State shared revenues and grants									
Licenses, permits and registration									
Charges for services				\$39,500	\$108,320	\$68,820	\$1,270,080	\$1,368,335	\$118,255
Fines and forfeits									
Interest and penalties				5,000	19,929	14,929	36,000	63,603	27,603
Investment income									
Rentals					1,000	1,000	7,375		(7,375)
Contributions and donations									
Sale of property and equipment									
Intra-governmental sales									
Miscellaneous									
Total Revenues	3,052,616	1,320,422	(1,732,194)	44,500	129,249	84,749	1,313,455	1,451,938	138,483
Expenditures:									
Current									
Administration	148,945	103,079	45,866	44,500		44,500			
Police									
Street repair and maintenance									
Planning and development									
Parks and recreation									
Parks operations & forestry									
Solid waste									
Community access television							1,021,481	1,053,621	(32,140)
Urban redevelopment and housing	2,903,671	1,217,343	1,686,328	561,209	76,077	485,132			
Information Services							310,012	112,723	197,289
Capital outlay									
Debt service:									
Principal retirement									
Interest and fiscal charges									
Total Expenditures	3,052,616	1,320,422	1,732,194	605,709	76,077	529,632	1,331,493	1,166,344	165,149
Excess of Revenues over (under) Expenditures				(561,209)	53,172	611,381	(18,038)	285,594	303,632
Other Financing Sources (Uses):									
Transfers in (Note 10)				100,000	100,000		(40,000)	(40,000)	
Transfers out (Note 10)				(68,075)	(68,075)				
Total Other Financing Sources (Uses)				31,925	31,925		(40,000)	(40,000)	
Net changes in fund balances				(529,284)	82,097	611,381	(58,038)	245,594	303,632
Fund Balances - July 1, 2005				529,284	581,433	52,149	58,038	1,952,667	1,894,629
Fund Balances - June 30, 2006					\$603,530	\$663,530		\$2,198,261	\$2,198,261

CITY OF ANN ARBOR  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES - BUDGETARY COMPARISONS  
For the Year Ended June 30, 2006  
(continued)

	Homeland Security Grant			Construction Code			Alternative Transportation		
	Modified Budget	Actual	Variance with Final Budget Positive (Negative)	Modified Budget	Actual	Variance with Final Budget Positive (Negative)	Modified Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:									
Taxes									
Special assessments/improvement charges									
Federal grants	\$945,059	\$659,574	(\$285,485)						
State shared revenues and grants									
Licenses, permits and registration				2,252,293	\$2,129,568	(\$122,625)			
Charges for services									
Fines and forfeits									
Interest and penalties					30,240	30,240		\$10,475	\$10,475
Investment income									
Rentals									
Contributions and donations									
Sale of property and equipment									
Intra-governmental sales									
Miscellaneous				2,000		(2,000)			
Total Revenues	945,059	659,574	(285,485)	2,254,293	2,159,908	(94,385)		10,475	10,475
Expenditures:									
Current:									
Administration							375,677	83,549	292,128
Police	582,730	428,033	154,697						
Street repair and maintenance									
Planning and development				2,554,293	2,199,931	354,362			
Parks and recreation									
Parks operations & forestry									
Solid waste									
Community access television									
Urban redevelopment and housing									
Information Services									
Capital outlay	362,320	231,541	130,788						
Debt service:									
Principal retirement									
Interest and fiscal charges									
Total Expenditures	945,059	659,574	285,485	2,554,293	2,199,931	354,362	375,677	83,549	292,128
Excess of Revenues over (under) Expenditures				(300,000)	(40,023)	259,977	(375,677)	(73,074)	302,603
Other Financing Sources (Uses):									
Transfers in (Note 10)				300,000	250,000	(50,000)	375,677	375,677	
Transfers out (Note 10)					(17,077)				
Total Other Financing Sources (Uses)				300,000	232,923	(50,000)	375,677	375,677	
Net changes in fund balances					192,880	209,977		302,603	302,603
Fund Balances - July 1, 2005				128,158	1,154,833	1,026,675		390,908	390,908
Fund Balances - June 30, 2006				\$128,158	\$1,347,713	\$1,236,652		\$693,511	\$693,511

CITY OF ANN ARBOR  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES - BUDGETARY COMPARISONS  
For the Year Ended June 30, 2006  
(continued)

	Street Repair Millage			Tree Removal & Disposal			Drug Enforcement		
	Modified Budget	Actual	Variance with Final Budget Positive (Negative)	Modified Budget	Actual	Variance with Final Budget Positive (Negative)	Modified Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:									
Taxes	\$8,242,925	\$8,151,936	\$90,989						
Special assessments/improvement charges									
Federal grants									
State shared revenues and grants		200,530	(200,530)						
Licenses, permits and registration									
Charges for services									
Fines and forfeits							\$7,000	\$6,872	(\$128)
Interest and penalties									
Investment income		448,026	(448,026)		\$26,109	\$26,109		343	343
Rentals									
Contributions and donations	33,351		33,351						
Sale of property and equipment									
Intra-governmental sales									
Miscellaneous		26,322	26,322						
<b>Total Revenues</b>	<b>8,276,276</b>	<b>8,824,814</b>	<b>(548,538)</b>	<b>26,109</b>	<b>26,109</b>		<b>7,000</b>	<b>7,215</b>	<b>215</b>
Expenditures:									
Current:									
Administration									
Police							12,000	9,091	2,909
Street repair and maintenance	9,734,637	7,827,100	1,907,537						
Planning and development									
Parks and recreation									
Parks operations & forestry				2,144,178	1,725,431	418,747			
Solid waste									
Community access television									
Urban redevelopment and housing									
Information Services									
Capital outlay									
Debt service:									
Principal retirement									
Interest and fiscal charges									
<b>Total Expenditures</b>	<b>9,734,637</b>	<b>7,827,100</b>	<b>1,907,537</b>	<b>2,144,178</b>	<b>1,725,431</b>	<b>418,747</b>	<b>12,000</b>	<b>9,091</b>	<b>2,909</b>
Excess of Revenues over (under) Expenditures	(1,458,361)	997,714	1,320,654	(2,144,178)	(1,699,322)	444,856	(5,000)	(1,876)	3,124
Other Financing Sources (Uses)									
Transfers in (Note 10)	400,000	491,532	\$91,532	2,144,178	2,144,178				
Transfers out (Note 10)	(339,532)	(517,291)	(177,759)						
<b>Total Other Financing Sources (Uses)</b>	<b>60,468</b>	<b>(25,759)</b>	<b>(86,227)</b>	<b>2,144,178</b>	<b>2,144,178</b>				
<b>Net changes in fund balances</b>	<b>(1,397,893)</b>	<b>971,955</b>	<b>2,369,848</b>		<b>444,856</b>	<b>444,856</b>	<b>(5,000)</b>	<b>(1,876)</b>	<b>3,124</b>
<b>Fund Balances - July 1, 2005</b>	<b>1,397,893</b>	<b>14,415,663</b>	<b>13,017,770</b>				<b>5,000</b>	<b>5,094</b>	<b>94</b>
<b>Fund Balances - June 30, 2006</b>		<b>\$15,387,618</b>	<b>\$15,387,618</b>		<b>\$444,856</b>	<b>\$444,856</b>		<b>\$3,218</b>	<b>\$3,218</b>

CITY OF ANN ARBOR  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES - BUDGETARY COMPARISONS  
For the Year Ended June 30, 2006  
(continued)

	Metro Expansion			Michigan Justice Training			Parks Repair & Restoration Millage		
	Modified Budget	Actual	Variance with Final Budget Positive (Negative)	Modified Budget	Actual	Variance with Final Budget Positive (Negative)	Modified Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:									
Taxes							\$ 1,885,000	\$ 1,940,582	\$ 55,582
Special assessments/improvement charges									
Federal grants									
State shared revenues and grants	\$357,081	\$687,050	\$329,977	\$30,000	\$36,561	\$6,561			
Licenses, permits and registration									
Charges for services		500	500				2,200		(2,200)
Fines and forfeits									
Interest and penalties									
Investment income		8,684	8,684	1,000	2,754	1,754		41,246	41,246
Rentals									
Contributions and donations								1,023	1,023
Sale of property and equipment									
Intra-governmental sales									
Miscellaneous								12,040	12,040
<b>Total Revenues</b>	<b>357,081</b>	<b>696,242</b>	<b>339,161</b>	<b>31,000</b>	<b>39,315</b>	<b>8,315</b>	<b>1,887,200</b>	<b>1,994,891</b>	<b>107,691</b>
Expenditures:									
Current:									
Administration									
Police				42,000	17,057	24,943			
Street repair and maintenance	357,081	146,669	210,412						
Planning and development									
Parks and recreation							1,887,200	1,598,677	288,523
Parks operations & forestry									
Solid waste									
Community access television									
Urban redevelopment and housing									
Information Services									
Capital outlay									
Debt service:									
Principal retirement									
Interest and fiscal charges									
<b>Total Expenditures</b>	<b>357,081</b>	<b>146,669</b>	<b>210,412</b>	<b>42,000</b>	<b>17,057</b>	<b>24,943</b>	<b>1,887,200</b>	<b>1,598,677</b>	<b>288,523</b>
<b>Excess of Revenues over (under) Expenditures</b>		<b>549,573</b>	<b>549,573</b>	<b>(11,000)</b>	<b>22,258</b>	<b>33,258</b>		<b>396,214</b>	<b>306,214</b>
Other Financing Sources (Uses):									
Transfers in (Note 10)							(500,000)	(500,000)	
Transfers out (Note 10)									
<b>Total Other Financing Sources (Uses)</b>							<b>(500,000)</b>	<b>(500,000)</b>	
<b>Net changes in fund balances</b>		<b>549,573</b>	<b>549,573</b>	<b>(11,000)</b>	<b>22,258</b>	<b>33,258</b>	<b>(500,000)</b>	<b>(103,786)</b>	<b>396,214</b>
<b>Fund Balances - July 1, 2005</b>				<b>15,000</b>	<b>77,668</b>	<b>62,668</b>	<b>500,000</b>	<b>680,312</b>	<b>180,312</b>
<b>Fund Balances - June 30, 2006</b>		<b>\$549,573</b>	<b>\$549,573</b>	<b>\$4,000</b>	<b>\$99,926</b>	<b>\$95,926</b>		<b>\$576,526</b>	<b>\$576,526</b>

CITY OF ANN ARBOR  
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCES - BUDGETARY COMPARISONS  
 For the Year Ended June 30, 2006  
 (continued)

	Parks Rehab & Development Millage			Special Assistance			Parks Memorial & Contributions		
	Modified Budget	Actual	Variance with Final Budget Positive (Negative)	Modified Budget	Actual	Variance with Final Budget Positive (Negative)	Modified Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:									
Taxes	\$ 1,039,024	\$ 1,903,448	\$ (35,576)						
Special assessments/improvement charges									
Federal grants									
State shared revenues and grants		38,000	38,000						
Licenses, permits and registration									
Charges for services									
Fines and forfeits									
Interest and penalties									
Investment income	54,000	97,836	43,835	\$50	\$200	\$150		\$55	\$55
Rentals									
Contributions and donations				5,600	4,778	(822)	70,000	37,430	(32,570)
Sale of property and equipment									
Intra-governmental sales									
Miscellaneous		504	504						
Total Revenues	1,993,024	2,039,788	46,764	5,650	4,978	(672)	70,000	37,485	(32,515)
Expenditures:									
Current:									
Administration									
Police									
Street repair and maintenance									
Planning and development									
Parks and recreation	2,379,169	801,957	1,577,212				70,000	5,638	64,362
Parks operations & forestry									
Solid waste									
Community access television									
Urban redevelopment and housing				5,650		5,650			
Information Services									
Capital outlay	425,041	97,600	327,241						
Debt service:									
Principal retirement									
Interest and Escal charges									
Total Expenditures	2,804,210	899,757	1,904,453	5,650		5,650	70,000	5,638	64,362
Excess of Revenues over (under) Expenditures	(811,186)	1,140,031	1,951,217		4,978	4,978		31,847	31,847
Other Financing Sources (Uses):									
Transfers in (Note 10)									
Transfers out (Note 10)									
Total Other Financing Sources (Uses)									
Net changes in fund balances	(811,186)	1,140,031	1,951,217		4,978	4,978		31,847	31,847
Fund Balances - July 1, 2005	811,186	2,767,047	1,945,861		4,216	4,216			
Fund Balances - June 30, 2006		\$3,897,078	\$3,897,078		\$9,194	\$9,194		\$31,847	\$31,847



CITY OF ANN ARBOR  
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCES - BUDGETARY COMPARISONS  
 For the Year Ended June 30, 2008  
 (continued)

	Court Facilities			Local Law Enforcement Block Grant			Major Grants		
	Modified Budget	Actual	Variance with Final Budget Positive (Negative)	Modified Budget	Actual	Variance with Final Budget Positive (Negative)	Modified Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:									
Taxes									
Special assessments/improvement charges									
Federal grants				562,492	336,307	(\$26,185)	551,278	563,986	\$12,708
State shared revenues and grants							162,496	66,100	(\$96,396)
Licenses, permits and registration									
Charges for services									
Fines and forfeits	\$225,000	\$201,336	(\$23,664)						
Interest and penalties									
Investment income		32,465	32,465		317	317			
Rentals									
Contributions and donations								3,002	3,002
Sale of property and equipment									
Intra-governmental sales									
Miscellaneous									
<b>Total Revenues</b>	<b>225,000</b>	<b>233,801</b>	<b>8,801</b>	<b>562,492</b>	<b>36,624</b>	<b>(25,868)</b>	<b>713,774</b>	<b>633,088</b>	<b>(\$80,686)</b>
Expenditures:									
Current:									
Administration	271,600	235,629	35,971				252,490	345,220	(\$92,730)
Police				36,392	18,213	18,179	210,636	48,545	162,091
Street repair and maintenance									
Planning and development									
Parks and recreation								3,002	(3,002)
Parks operations & forestry									
Solid waste									
Community access television									
Urban redevelopment and housing									
Information Services									
Capital outlay	15,000	63,060	(48,060)	28,100	21,994	6,106	314,131	268,099	46,032
Debt service:									
Principal retirement									
Interest and fiscal charges									
<b>Total Expenditures</b>	<b>286,600</b>	<b>298,689</b>	<b>(11,859)</b>	<b>62,492</b>	<b>40,207</b>	<b>22,285</b>	<b>777,257</b>	<b>664,865</b>	<b>112,391</b>
<b>Excess of Revenues over (under) Expenditures</b>	<b>(61,600)</b>	<b>(64,888)</b>	<b>(3,088)</b>		<b>(3,583)</b>	<b>(3,583)</b>	<b>(63,483)</b>	<b>(31,778)</b>	<b>31,705</b>
Other Financing Sources (Uses):									
Transfers in (Note 10)					3,583	(3,583)	63,483	31,778	(31,705)
Transfers out (Note 10)	(40,000)								
<b>Total Other Financing Sources (Uses)</b>	<b>(40,000)</b>				<b>3,583</b>	<b>(3,583)</b>	<b>63,483</b>	<b>31,778</b>	<b>(31,705)</b>
<b>Net changes in fund balances</b>	<b>(101,600)</b>	<b>(64,888)</b>	<b>(3,088)</b>						
<b>Fund Balances - July 1, 2005</b>	<b>120,800</b>	<b>955,355</b>	<b>834,555</b>				<b>6,928</b>	<b>6,928</b>	
<b>Fund Balances - June 30, 2006</b>	<b>\$19,000</b>	<b>\$890,467</b>	<b>\$871,467</b>				<b>\$6,928</b>	<b>\$6,928</b>	

CITY OF ANN ARBOR  
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCES - BUDGETARY COMPARISONS  
 For the Year Ended June 30, 2006  
 (continued)

	Federal Equitable Sharing Expenditure			Bandemer			Cemetery Perpetual Care		
	Modified Budget	Actual	Variance with Final Budget Positive (Negative)	Modified Budget	Actual	Variance with Final Budget Positive (Negative)	Modified Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:									
Taxes							\$	\$	
Special assessments/improvement charges									
Federal grants									
State shared revenues and grants									
Licenses, permits and registration									
Charges for services				54,200		(\$4,200)	2,900		2,900
Fines and forfeits	\$132,933	\$182,119	\$49,186						
Interest and penalties									
Investment income		2,772	2,772	4,180	9,007	4,827	1,637		1,637
Rentals					6,000	6,000			
Contributions and donations									
Sale of property and equipment							4,500		(4,500)
Intra-governmental sales									
Miscellaneous									
Total Revenues	132,933	184,891	51,958	6,380	15,007	8,627	4,500	4,537	37
Expenditures:									
Current:									
Administration									
Police	170,619	122,226	48,393						
Street repair and maintenance									
Planning and development				21,618	2,823	18,795			
Parks and recreation									
Parks operations & forestry									
Solid waste									
Community access television									
Urban redevelopment and housing									
Information Services									
Capital outlay									
Debt service:									
Principal retirement									
Interest and fiscal charges									
Total Expenditures	170,619	122,226	48,393	21,618	2,823	18,795			
Excess of Revenues over (under) Expenditures	(37,686)	62,665	100,351	(13,238)	12,184	25,422	4,500	4,537	37
Other Financing Sources (Uses):									
Transfers in (Note 10)									
Transfers out (Note 10)									
Total Other Financing Sources (Uses)									
Net changes in fund balances	(37,686)	62,665	100,351	(13,238)	12,184	25,422	4,500	4,537	37
Fund Balances - July 1, 2005	37,686	39,855	2,169	13,238	268,562	255,324	52,870		52,870
Fund Balances - June 30, 2006		\$102,520	\$102,520		\$280,746	\$280,746	\$4,500	\$57,407	\$52,907

CITY OF ANN ARBOR  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES - BUDGETARY COMPARISONS  
For the Year Ended June 30, 2006  
(concluded)

	Energy Projects			Police and Fire Relief			General Debt Service			Special Assessments-Debt Service		
	Modified Budget	Actual	Variance with Final Budget Positive (Negative)	Modified Budget	Actual	Variance with Final Budget Positive (Negative)	Modified Budget	Actual	Variance with Final Budget Positive (Negative)	Modified Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:												
Taxes							\$ 2,401,112	\$2,418,990	\$18,878			
Special assessments/improvement charges										\$122,147		\$122,147
Federal grants												
State shared revenues and grants												
Licenses, permits and registration												
Charges for services												
Fines and forfeits												
Interest and penalties										100,000	39,894	(60,106)
Investment income	\$2,000	\$17,146	\$15,146	\$10,000	\$22,804	\$12,804	2,000	1,737	(263)	9,000	52,511	43,511
Rentals												
Contributions and donations	9,632	9,632										
Sale of property and equipment												
Intra-governmental sales												
Miscellaneous								443	443			
<b>Total Revenues</b>	<b>11,632</b>	<b>26,778</b>	<b>15,146</b>	<b>10,000</b>	<b>22,804</b>	<b>12,804</b>	<b>2,403,112</b>	<b>2,422,170</b>	<b>19,058</b>	<b>109,000</b>	<b>214,652</b>	<b>105,652</b>
Expenditures:												
Current:												
Administration	20,000	117,926	(97,926)				17,000	8,561	8,339			
Police					7,062	(7,062)						
Street repair and maintenance												
Planning and development												
Parks and recreation												
Parks operations & forestry												
Solid waste												
Community access television												
Urban redevelopment and housing												
Information Services												
Capital outlay	140,000		140,000									
Debt service:												
Principal retirement							3,563,541	2,143,050	1,420,491	365,000	365,000	
Interest and fiscal charges							2,316,659	1,255,688	1,060,971	73,849	73,478	371
<b>Total Expenditures</b>	<b>160,000</b>	<b>117,926</b>	<b>42,074</b>		<b>7,062</b>	<b>(7,062)</b>	<b>5,897,200</b>	<b>3,407,390</b>	<b>2,489,801</b>	<b>438,849</b>	<b>438,478</b>	<b>371</b>
<b>Excess of Revenues over (under) Expenditures</b>	<b>(148,368)</b>	<b>(91,148)</b>	<b>57,220</b>	<b>10,000</b>	<b>15,742</b>	<b>5,742</b>	<b>(3,494,088)</b>	<b>(985,220)</b>	<b>2,508,859</b>	<b>(329,849)</b>	<b>(223,826)</b>	<b>106,023</b>
Other Financing Sources (Uses):												
Transfers in (Note 10)	53,845	53,845					3,830,335	1,049,524	(2,480,811)		124,091	124,091
Transfers out (Note 10)											(210,820)	(210,820)
<b>Total Other Financing Sources (Uses)</b>	<b>53,845</b>	<b>53,845</b>					<b>3,830,335</b>	<b>1,049,524</b>	<b>(2,480,811)</b>		<b>(86,729)</b>	<b>(86,729)</b>
<b>Net changes in fund balances</b>	<b>(94,723)</b>	<b>(37,503)</b>	<b>57,220</b>	<b>10,000</b>	<b>15,742</b>	<b>5,742</b>	<b>36,247</b>	<b>54,295</b>	<b>28,048</b>	<b>(329,849)</b>	<b>(310,555)</b>	<b>19,294</b>
<b>Fund Balances - July 1, 2005</b>	<b>94,723</b>	<b>478,622</b>	<b>383,799</b>		<b>550,262</b>	<b>550,262</b>		<b>100,112</b>	<b>100,112</b>	<b>329,849</b>	<b>1,521,560</b>	<b>1,191,711</b>
<b>Fund Balances - June 30, 2006</b>		<b>\$441,019</b>	<b>\$441,019</b>	<b>\$10,000</b>	<b>\$566,004</b>	<b>\$556,004</b>	<b>\$36,247</b>	<b>\$154,407</b>	<b>\$128,160</b>		<b>\$1,211,005</b>	<b>\$1,211,005</b>

CITY OF ANN ARBOR  
INTERNAL SERVICE FUNDS  
COMBINING STATEMENT OF NET ASSETS  
June 30, 2006

ASSETS	Central Stores	Information Technology	Park Service Headquarters	Fleet Services	Project Management	Insurance	Total
<b>Current Assets:</b>							
Cash	\$15,353	\$9,250	\$1,351	\$87,904	\$47,884	\$1,893	\$143,435
Equity in pooled cash and investments (Note 4)	865,982	3,002,053		2,379,643		5,845,624	12,093,302
Accounts receivable				5,864	51,975	4,256	62,095
Less: allowance for uncollectibles				(133)	(12,118)	(4,258)	(16,507)
Due from other funds (Note 5)	55,134	21,358	10	207,521	355,415	19,564	659,002
Prepaid items		1,884				1,883,337	1,885,221
Inventory, at cost	428,791			338,901			767,692
<b>Total Current Assets</b>	<b>1,365,260</b>	<b>3,034,545</b>	<b>1,361</b>	<b>2,999,700</b>	<b>442,956</b>	<b>7,750,418</b>	<b>15,594,240</b>
<b>Capital assets, at cost (Note 7):</b>							
Land			98,440	96,267			194,707
Buildings	90,663		152,159	257,843			500,665
Improvements other than buildings				62,407			62,407
Vehicles				7,051,803			7,051,803
Machinery and equipment	75,733	346,532		2,631,157			3,053,422
Less: Accumulated depreciation	(123,401)	(12,887)	(150,493)	(7,560,703)			(7,847,484)
<b>Net Property, Plant and Equipment</b>	<b>42,995</b>	<b>333,645</b>	<b>100,106</b>	<b>2,538,774</b>			<b>3,015,520</b>
<b>Total Assets</b>	<b>1,408,255</b>	<b>3,368,190</b>	<b>101,467</b>	<b>5,538,474</b>	<b>442,956</b>	<b>7,750,418</b>	<b>18,609,760</b>
<b>LIABILITIES</b>							
<b>Current Liabilities:</b>							
Accounts payable	20,176	213,836	4,778	132,274	698	143,238	515,000
Estimated claims payable						2,635,056	2,635,056
Accrued liabilities	3,406	27,180	701	21,195	29,482	76,826	158,790
Due to other funds (Note 5)	5,948	10,425	252	21,793	134,218	7,443	180,079
Accrued compensated absences - short term (Note 9)	1,708			17,825	897	1,368	21,798
<b>Total Current Liabilities</b>	<b>31,238</b>	<b>251,441</b>	<b>5,731</b>	<b>193,087</b>	<b>165,295</b>	<b>2,883,929</b>	<b>3,510,721</b>
<b>Long-Term Liabilities:</b>							
Accrued compensated absences (Note 9)	12			275,724	12,822	18,116	306,674
<b>Total Long-Term Liabilities</b>	<b>12</b>			<b>275,724</b>	<b>12,822</b>	<b>18,116</b>	<b>306,674</b>
<b>TOTAL LIABILITIES</b>	<b>31,250</b>	<b>251,441</b>	<b>5,731</b>	<b>468,811</b>	<b>178,117</b>	<b>2,882,045</b>	<b>3,817,395</b>
<b>Net Assets:</b>							
Invested in Capital Assets	42,995	333,645	95,736	2,538,774			3,011,150
Unrestricted	1,334,010	2,783,104		2,530,889	264,839	4,868,373	11,781,215
<b>TOTAL NET ASSETS</b>	<b>\$1,377,005</b>	<b>\$3,116,749</b>	<b>\$95,736</b>	<b>\$5,069,663</b>	<b>\$264,839</b>	<b>\$4,868,373</b>	<b>\$14,782,385</b>

CITY OF ANN ARBOR  
INTERNAL SERVICE FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
For the Year Ended June 30, 2006

	Central Stores	Information Technology	Park Service Headquarters	Fleet Services	Project Management	Insurance	Total
Operating Revenues:							
Charges for services	\$1,202,369	\$5,126,038	\$141,408	\$5,220,970	\$1,866,338	\$16,910,235	\$30,467,358
Miscellaneous revenues		549		10,626	11,407		22,582
Total Operating Revenues	1,202,369	5,126,587	141,408	5,231,596	1,877,745	16,910,235	30,489,940
Operating Expenses:							
Personal services	211,953	1,486,443	42,229	1,402,319	1,339,521	217,202	4,699,667
Materials and supplies	23,996	734,934	8,521	26,563	27,288	4,993	828,305
Utilities	2,597	38,968	58,865	6,081	8,935		116,446
Insurance	588	972	3,696	25,824	1,488	14,743,427	14,775,995
Contractual services	99,198	153,534	5,722	5,690		1,239	265,383
Maintenance	6,591	53,783	1,850	71,598	43,800		177,422
Professional fees	84	58,467				214,428	272,979
Miscellaneous	4,125	15,108	396	1,989	22,120	1,186	44,924
Cost of goods sold	597,170	(1,824)		1,388,219			1,983,565
Municipal service charge	31,692	416,828	8,048	128,496	262,176	246,096	1,091,436
Information Technology Charges	14,465	129,217		89,277	268,084	47,559	548,602
Depreciation and amortization	4,997	12,887	3,287	912,359			933,530
Total Operating Expenses	997,456	3,099,417	131,614	4,058,415	1,973,222	15,476,130	25,736,254
Operating Income (Loss)	204,913	2,027,170	9,794	1,173,181	(95,477)	1,434,105	4,753,686
Nonoperating Revenues (Expenses):							
Investment income	21,197	38,252	144	45,234		257,140	361,967
Interest expense and fiscal charges					(17,581)		(17,581)
Net gain on retirement of capital assets				81,517			81,517
Total Nonoperating Revenues (Expenses)	21,197	38,252	144	126,751	(17,581)	257,140	425,903
Income (Loss) Before Transfers	226,110	2,065,422	9,938	1,299,932	(113,058)	1,691,245	5,179,589
Transfers In (Note 10)		30,000		255,702	425,939		711,641
Transfers Out (Note 10)	(5,835)			(1,738,106)	(48,042)	(664,178)	(2,456,161)
Net Transfers In (Out)	(5,835)	30,000		(1,482,404)	377,897	(664,178)	(1,744,520)
Change in Net Assets	220,275	2,095,422	9,938	(182,472)	268,839	1,027,067	3,435,069
Net Assets - July 1, 2005	1,166,730	1,021,327	85,798	5,252,135		3,841,306	11,357,296
Net Assets - June 30, 2006	\$1,377,005	\$3,116,748	\$95,736	\$5,069,663	\$268,839	\$4,868,373	\$14,792,365

CITY OF ANN ARBOR  
INTERNAL SERVICE FUNDS  
COMBINING STATEMENT OF CASH FLOWS  
For the Fiscal Year Ended June 30, 2006

	Central Stores	Information Technology	Park Service Headquarters	Fleet Services	Project Management	Insurance	Total
Cash flow from operating activities:							
Receipts from customers	\$1,202,369	\$5,128,587	\$141,408	\$5,225,855	\$1,837,868	\$16,910,235	\$30,444,352
Receipts from interfund services provided	33,238	9,090					42,328
Payments to suppliers	(754,263)	(1,534,459)	(85,531)	(1,810,485)	(652,241)	(18,641,602)	(23,478,601)
Payments on behalf of employees	(224,649)	(1,376,524)	(39,753)	(1,388,299)	(1,294,663)	(200,883)	(4,524,971)
Payments for interfund services used		(21,358)	(18,102)	(69,655)	(221,197)	(755,515)	(1,105,837)
Net cash provided by (used in) operating activities	256,475	2,203,336	(1,978)	1,937,416	(330,213)	(2,687,765)	1,377,271
Cash flows from noncapital financing activities:							
Transfers in		30,000		255,702	425,939		711,641
Transfers out	(5,835)			(1,738,106)	(48,042)	(664,178)	(2,456,161)
Net cash flows provided by (used in) noncapital financing activities	(5,835)	30,000		(1,482,404)	377,897	(664,178)	(1,744,520)
Cash flows from capital and related financing activities:							
Proceeds from sale of equipment				121,010			121,010
Acquisition of capital assets		(346,532)		(710,884)			(1,057,416)
Net cash flows used in capital and related financing activities		(346,532)		(589,874)			(936,406)
Cash flows from investing activities:							
Interest and dividends on investments	21,197	38,252	144	45,234		257,140	361,967
Net cash flows provided by investing activities	21,197	38,252	144	45,234		257,140	361,967
Net increase (decrease) in cash and cash equivalents	271,837	1,925,056	(1,834)	(69,628)	47,684	(3,094,803)	(941,686)
Cash and cash equivalents - July 1, 2005	609,498	1,086,247	3,185	2,537,175		8,942,320	13,178,425
Cash and cash equivalents - June 30, 2006	\$881,335	\$3,011,303	\$1,351	\$2,447,547	\$47,684	\$5,847,517	\$12,236,737

CITY OF ANN ARBOR  
INTERNAL SERVICE FUNDS  
COMBINING STATEMENT OF CASH FLOWS  
For the Fiscal Year Ended June 30, 2006  
(Concluded)

	Central Stores	Information Technology	Park Service Headquarters	Fleet Services	Project Management	Insurance	Total
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:							
Net operating income (loss)	\$204,913	\$2,027,170	\$9,794	\$1,173,181	(\$113,058)	\$1,434,105	\$4,736,105
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:							
Depreciation and amortization	4,997	12,887	3,287	912,359			933,530
(Increase) decrease in assets and increase (decrease) in liabilities:							
Allowance for uncollectible accounts					12,118		12,118
Accounts receivable				(5,731)	(51,975)		(57,706)
Inventory	46,653			(15,451)			31,212
Prepaid items		(1,884)				(448,460)	(450,344)
Accounts payable	(8,203)	150,251	2,995	(51,297)	698	85,203	179,648
Accrued compensated absences	(25,342)		(588)	25,978	13,719	4,695	18,484
Estimated claims payable						(3,009,377)	(3,009,377)
Accrued liabilities	209	27,180	613	(11,958)	29,482	1,584	47,110
Due to other funds	4,533	9,090	(18,092)	(49,760)	134,218	(756,776)	(676,787)
Due from other funds	28,705	(21,358)	(10)	(39,905)	(355,415)	1,261	(386,722)
Net cash provided by (used in) operating activities	\$256,475	\$2,203,336	(\$1,978)	\$1,937,416	(\$330,213)	(\$2,687,765)	\$1,377,271

CITY OF ANN ARBOR  
FIDUCIARY FUNDS  
COMBINING STATEMENT OF FIDUCIARY NET ASSETS  
June 30, 2006

	Employee Retirement Funds		Total Pension Funds
	Employees' Retirement System	VEBA Trust Fund	
<b>ASSETS</b>			
Cash	\$1,284,706	\$	\$1,284,706
Equity in pooled cash and investments (Note 4)		1,554	1,554
Investments, at fair value (Note 4):			
Short term investments	6,272,826	1,494,018	7,766,844
U.S. Government obligations	36,243,383		36,243,383
Guaranteed investment contracts	12,420,020		12,420,020
Collateralized Mortgage Obligations	14,967,711		14,967,711
Domestic corporate bonds	29,891,136	15,812,847	45,703,983
Domestic stocks	258,344,207	35,315,843	293,660,050
Real Estate-Direct & funds	45,076,473	2,919,135	47,995,608
Accrued interest and dividends	773,444	155,336	928,780
Due from other governments	344,710		344,710
Property, plant & equipment (net of depreciation of \$23,463)	3,351		3,351
<b>Total Assets</b>	<b>405,621,967</b>	<b>55,698,733</b>	<b>461,320,700</b>
<b>LIABILITIES</b>			
Accounts payable	2,351,195	37,779	2,388,974
<b>Total Liabilities</b>	<b>2,351,195</b>	<b>37,779</b>	<b>2,388,974</b>
<b>NET ASSETS</b>			
Held in Trust for Pension Benefits and Other Purposes	<u>\$403,270,772</u>	<u>\$55,660,954</u>	<u>\$458,931,726</u>



CITY OF ANN ARBOR  
FIDUCIARY FUNDS  
COMBINING STATEMENT OF FIDUCIARY NET ASSETS  
June 30, 2006

	Agency Funds				Total Agency Funds
	Treasurer's Current Tax	Treasurer's Delinquent Tax	Contractors' Retainage	Fifteenth District Court	
ASSETS					
Cash	\$82,878	\$1,316	\$673,637	\$178,865	\$936,696
Total Assets	\$82,878	\$1,316	\$673,637	\$178,865	\$936,696
LIABILITIES					
Accounts payable	\$82,878	\$1,316	\$673,637	\$	\$757,831
Due to other governments				111,001	111,001
Deposits				67,864	67,864
Total Liabilities	\$82,878	\$1,316	\$673,637	\$178,865	\$936,696

CITY OF ANN ARBOR  
FIDUCIARY FUNDS  
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
For the Year Ended June 30, 2008

	Employee Retirement Funds		Total
	Employees' Retirement System	VEBA Trust Fund	
ADDITIONS			
Investment income:			
Net realized and unrealized appreciation in fair value of investments	\$29,947,537	\$	\$29,947,537
Interest	10,131,095	1,517,575	11,648,671
Dividends	1,770,201	2,302,136	4,072,337
Total investment income	41,848,834	3,819,711	45,668,545
Less investment expense	1,759,178	169,426	1,928,604
Net investment income	40,089,656	3,650,285	43,739,941
Contributions:			
Employer	2,897,639	7,065,913	9,963,552
Plan member	2,951,544		2,951,544
Total contributions	5,849,183	7,065,913	12,915,096
Total additions	45,938,839	10,716,198	56,655,037
DEDUCTIONS			
Benefits	22,567,344		22,567,344
Refund of contributions	611,444		611,444
Administrative expense	7,508,880	18,584	7,527,464
Total deductions	30,687,668	18,584	30,706,252
Change in net assets	15,251,171	10,697,614	25,948,785
Net assets held in trust for benefits at beginning of year	388,019,601	44,963,340	432,982,941
Net assets held in trust for benefits at end of year	\$403,270,772	\$55,660,954	\$458,931,726

CITY OF ANN ARBOR  
AGENCY FUNDS

SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES  
For the Year Ended June 30, 2006

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
<b>TREASURER'S CURRENT TAX FUND</b>				
<b>ASSETS</b>				
Cash	\$813,609	\$1,174,682,124	\$1,175,412,855	\$82,878
Equity in pooled cash and investments (Note 4)		126,957,661	126,957,661	
Accrued interest		5,344	5,344	
Due from other funds (Note 5)		204,818	204,818	
<b>Total Assets</b>	<b>\$813,609</b>	<b>\$1,301,849,947</b>	<b>\$1,302,580,678</b>	<b>\$82,878</b>
<b>LIABILITIES</b>				
Accounts payable	\$43,658	\$258,180,018	\$258,140,798	\$82,878
Due to other funds (Note 5)		1,541,731	1,541,731	
Due to other governments	769,951		769,951	
<b>Total Liabilities</b>	<b>\$813,609</b>	<b>\$259,721,749</b>	<b>\$260,452,480</b>	<b>\$82,878</b>

CITY OF ANN ARBOR  
AGENCY FUNDS

SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES  
For the Year Ended June 30, 2006

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
<b>TREASURER'S DELINQUENT TAX FUND</b>				
<b>ASSETS</b>				
Cash		\$1,648,124	\$1,646,808	\$1,316
Equity in pooled cash and investments (Note 4)		1,201,097	1,201,097	
<b>Total Assets</b>		<b>\$2,849,221</b>	<b>\$2,847,905</b>	<b>\$1,316</b>
<b>LIABILITIES</b>				
Accounts payable		\$51,990	\$50,674	\$1,316
Due to other funds (Note 5)		492,559	492,559	
Due to other governments		439,668	439,668	
<b>Total Liabilities</b>		<b>\$984,217</b>	<b>\$982,901</b>	<b>\$1,316</b>
<b>CONTRACTORS' RETAINAGES FUND</b>				
<b>ASSETS</b>				
Cash	\$275,830	\$2,886,298	\$2,488,491	\$673,637
Equity in pooled cash and investments (Note 4)		932,132	932,132	
Due from other government	5,133		5,133	
Due from other funds (Note 5)		20,594	20,594	
<b>Total Assets</b>	<b>\$280,963</b>	<b>\$3,839,024</b>	<b>\$3,446,350</b>	<b>\$673,637</b>
<b>LIABILITIES</b>				
Accounts payable	\$280,963	\$822,777	\$430,103	\$673,637
Due to other funds		181,301	181,301	
<b>Total Liabilities</b>	<b>\$280,963</b>	<b>\$1,004,078</b>	<b>\$611,404</b>	<b>\$673,637</b>

CITY OF ANN ARBOR  
AGENCY FUNDS

SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES  
For the Year Ended June 30, 2006

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
<b>FIFTEENTH DISTRICT COURT</b>				
<b>ASSETS</b>				
Cash	\$219,057	\$296,735	\$336,927	\$178,865
<b>LIABILITIES</b>				
Due to other funds (Note 5)		\$269,029	\$269,029	
Due to other governments	\$134,957		23,956	111,001
Deposits	84,100		16,236	67,864
Total Liabilities	\$219,057	\$269,029	\$309,221	\$178,865
<b>TOTAL - ALL AGENCY FUNDS</b>				
<b>ASSETS</b>				
Cash	\$1,308,496	\$1,179,513,281	\$1,179,885,081	\$936,696
Equity in pooled cash and investments (Note 4)		129,090,890	129,090,890	
Due from other funds (Note 5)		225,412	225,412	
Due from other governments	5,133		5,133	
Total Assets	\$1,313,629	\$1,308,829,583	\$1,309,206,516	\$936,696
<b>LIABILITIES</b>				
Accounts payable	\$324,621	\$259,054,785	\$258,621,575	\$757,831
Due to other funds (Note 5)		2,484,620	2,484,620	
Due to other governments	904,908	439,668	1,233,575	111,001
Deposits	84,100		16,236	67,864
Total Liabilities	\$1,313,629	\$261,979,073	\$262,356,006	\$936,696

Principals

Dale J. Abraham, CPA  
Michael T. Gaffney, CPA  
Steven R. Kirinovic, CPA  
Aaron M. Stevens, CPA  
Eric J. Glashouwer, CPA



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Honorable Mayor and  
Members of the City Council  
City of Ann Arbor  
Ann Arbor, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the aggregate discretely presented component units, and the aggregate remaining fund information of the City of Ann Arbor, Michigan as of and for the year ended June 30, 2006, and have issued our report thereon dated October 30, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Ann Arbor's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Ann Arbor's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

2006-1 USE OF CITY CREDIT CARDS

Criteria: Compliance with City administrative policy. City administrative policy #512 provides (among other things) that documentation be maintained for all purchases, that purchases be made only for official City business, that meals, office supplies, and travel expenses not be incurred (except under a departure from policy ordered by the City Administrator), and that use of the City credit card does not exempt the user from compliance with Federal or State regulations as well as City ordinances, policies and procedures.

Condition: During our testing of transactions related to the use of purchasing cards it was determined that the City did not comply with established administrative policy and financial management procedures. It was noted that:

- Supporting documentation was not provided for several of the transactions tested.
- None of the transactions sampled contained any explanation that would allow a user to determine that the purchase was made for official City business.
- There are individuals who hold unrestricted cards but the approval for those cards was not given by the City Administrator. Approval was given by the Chief Financial Officer. Purchases were made for items not otherwise allowed under the policy on one of these cards we reviewed.
- Instances were noted where purchases were made using the City credit cards (meals, recognition functions) that violate Michigan State law or Attorney General Opinions as compiled in Michigan Department of Treasury's document "Determining Lawful Expenditures".

Context: This finding was noted during testing of transactions related to credit card usage.

Recommendation: We recommend the City take steps to ensure that supporting documentation is retained for all credit card transactions, including documentation of the business purpose of all charges. Additionally, unrestricted cards should only be granted as ordered by the City Administrator. Unlimited cards currently in place that were not properly approved should be revoked or approved by the City Administrator in writing. We further recommend that the cards be used only for lawful expenditures allowed by the State of Michigan.

**Corrective Action Response:** Management is changing the purchasing card policy to require users to send documentation of transactions to Finance on a monthly basis, including the business purpose of the transaction, so that all documentation can be centrally maintained. Management will also formally document the City Administrator's designation of the Chief Financial Officer as the credit card administrator. With respect to purchasing cards being used for recognition, management believes that reward and recognition of employee contributions are important in the present environment where the City asks employees to do more with less. The recognition events are a key part of the City's efforts to motivate employees. Many other municipalities in the State, similar to the private sector, have established recognition programs. Management will develop a funding strategy for these events that comply with the established requirements.

#### 2006-2 UNLAWFUL EXPENDITURES

Criteria: Guidance concerning lawful expenditures is given by the Michigan Department of Treasury in a document called "Determining Lawful Expenditures" that is available on their website. Specifically disallowed are expenditures for meals (with some exceptions) and employee recognition.

Condition: Numerous instances of meals being purchased and employee recognition being provided were noted. Each department of the City has a budget each year for employee recognition.

Context: This finding was noted during testing of transactions related to credit card usage, inquiry of management, and observation of employee recognition events while the audit was being conducted.

Recommendation: We recommend that all expenditures that do not have a documented public purpose be discontinued.

**Corrective Action Response:** Management is changing administrative policy to require the appropriate documentation for meals purchased using City funds. Finance will also monitor and test transactions for compliance with the revised policy. With respect to employee recognition events, as stated in management's response to comment 2006-1, management is committed to employee recognition and will be developing a funding strategy to comply with State law.

### 2006-3 REIMBURSEMENT OF EMPLOYEE INCOME TAXES ON FRINGE BENEFITS

Criteria: Compliance with a non-union employee contract.

Condition: A City employee was reimbursed for income taxes that were incurred as a result of certain fringe benefits provided under that employee's contract with the City. The employment contract does not specify, however, that the employee was entitled to reimbursement of income taxes incurred.

Context: This finding was noted during testing of transactions related to payments made and compliance with employment agreements for certain key management employees.

Recommendation: We recommend that either the applicable employee's contract be amended to allow these reimbursements or steps be taken to ensure that similar payments do not take place in the future.

**Corrective Action Response:** Management is currently evaluating internal changes to address this situation.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider items 2006-1, 2006-2, and 2006-3 to be material weaknesses.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Ann Arbor's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

We noted certain matters that we have reported to management and the Mayor and Members of the City Council of the City of Ann Arbor, Michigan in a separate letter dated October 30, 2006.

This report is intended solely for the information and use of management, the Mayor, and the members of the City Council of the City of Ann Arbor, the pass-through grantors, and the Federal awarding agencies and is not intended to be, and should not be, used by anyone other than these specified parties.

*Abraham & Gaffney P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

October 30, 2006



CITY OF ANN ARBOR  
NET ASSETS BY COMPONENT  
LAST FIVE FISCAL YEARS  
(accrual basis of accounting)  
(Unaudited)

TABLE I

	Fiscal Year				
	2002	2003	2004	2005	2006
Governmental activities					
Invested in capital assets, net of related debt	\$ 580,089,833	\$ 583,715,108	\$ 598,685,040	\$ 603,474,157	\$ 575,895,851
Restricted	17,869,882	19,772,929	18,488,574	14,535,869	101,447,127
Unrestricted	30,948,761	41,910,911	48,319,797	44,040,557	16,556,289
Total governmental activities net assets	<u>\$ 628,908,476</u>	<u>\$ 645,398,948</u>	<u>\$ 665,493,411</u>	<u>\$ 662,050,583</u>	<u>\$ 693,899,267</u>
Business-type activities					
Invested in capital assets, net of related debt	\$ 87,975,478	\$ 95,615,594	\$ 67,551,963	\$ 90,066,898	\$ 97,487,787
Restricted	4,655,000	13,049,290	16,493,596	16,634,604	15,918,577
Unrestricted	39,993,236	29,295,034	58,330,509	58,691,676	56,489,160
Total business-type activities net assets	<u>\$ 132,623,714</u>	<u>\$ 137,959,918</u>	<u>\$ 142,376,068</u>	<u>\$ 165,393,178</u>	<u>\$ 169,895,524</u>
Primary government					
Invested in capital assets, net of related debt	\$ 668,065,311	\$ 679,330,702	\$ 666,237,003	\$ 693,541,055	\$ 673,383,638
Restricted	22,524,882	32,822,219	34,982,170	31,170,473	117,365,704
Unrestricted	70,941,997	71,205,945	106,650,306	102,732,233	73,045,449
Total primary government net assets	<u>\$ 761,532,190</u>	<u>\$ 783,358,866</u>	<u>\$ 807,869,479</u>	<u>\$ 827,443,761</u>	<u>\$ 863,794,791</u>

Source: City of Ann Arbor Financial Services, Accounting Services Unit

TABLE II

CITY OF ANN ARBOR  
CHANGES IN NET ASSETS  
LAST FIVE FISCAL YEARS  
(accrual basis of accounting)  
(Unaudited)

	Fiscal Year				
	2002	2003	2004	2005	2006
Expenses					
Governmental activities:					
General government	\$ 17,518,453	\$ 18,911,586	\$ 20,832,703	\$ 12,025,661	\$ 12,906,947
Public Safety	37,281,245	36,517,037	38,535,603	43,656,127	44,026,682
Highways and streets	11,670,492	8,807,135	9,788,021	15,086,160	11,449,294
Solid Waste	7,381,695	7,106,296	6,940,330		
Culture and Recreation	10,019,656	11,586,697	9,190,992	7,697,210	6,810,978
Social Services	3,108,694	2,705,147	2,026,806	2,431,754	2,982,647
Transportation (payment to AATA)	7,137,843	7,613,357	7,951,457	8,349,044	8,666,141
Community access television	952,185	959,968	1,029,326	1,080,660	1,001,330
Information services	2,621,118	1,766,646	377,976	626,090	
Urban redevelopment and housing	657,168	1,499,422	1,882,128	2,993,631	2,188,427
Economic development		10,187,500	250,000		
Public Services				7,468,543	5,227,128
Unallocated depreciation	14,840	27,326	41,414	37,375	71,575
Interest on long-term debt	1,029,599	943,997	1,218,936	934,007	1,539,263
Total governmental activities expenses	<u>99,392,988</u>	<u>108,632,114</u>	<u>100,065,692</u>	<u>102,386,262</u>	<u>96,870,412</u>
Business-type activities:					
Water	13,262,228	14,521,017	15,772,718	16,671,468	16,881,883
Sewer	14,282,194	13,665,415	14,102,932	14,019,208	13,488,810
Parking	3,695,555	2,630,276	2,478,172	2,368,344	3,684,777
Market	97,002	121,863	149,660	115,892	124,754
Golf courses	1,452,657	1,465,206	1,275,010	1,152,354	1,134,301
Airport	639,529	837,252	804,005	860,515	904,514
Stormwater	1,753,065	1,879,044	1,875,871	1,662,144	1,556,229
Hydropower	440,838	420,254	467,783	259,773	
Solid Waste				8,086,147	9,876,503
Total business-type activities expenses	<u>35,623,068</u>	<u>35,540,327</u>	<u>36,926,151</u>	<u>45,195,845</u>	<u>47,651,771</u>
Total primary government expenses	<u>\$ 135,016,056</u>	<u>\$ 144,172,441</u>	<u>\$ 136,991,843</u>	<u>\$ 147,582,107</u>	<u>\$ 144,522,183</u>

TABLE II

CITY OF ANN ARBOR  
CHANGES IN NET ASSETS  
LAST FIVE FISCAL YEARS-CONTINUED  
(accrual basis of accounting)  
(Unaudited)

	Fiscal Year				
	2002	2003	2004	2005	2006
Program Revenues					
Governmental activities:					
Charges for services:					
General government	\$ 4,900,842	\$ 6,915,638	\$ 7,689,523	\$ 4,138,144	\$ 9,328,254
Public Safety	9,776,870	10,347,613	10,189,485	11,539,080	11,624,431
Highways and streets	1,251,790	1,837,958	7,085,539	3,220,105	1,834,707
Solid Waste	268,088	334,555	409,617		
Culture and Recreation	2,071,114	2,119,851	2,650,541	2,280,083	2,482,219
Social Services			1,109,134	(81,681)	890
Transportation (payment to AATA)	71,760	76,113	79,541	83,507	86,770
Community access television	1,284,256	1,461,217	1,285,139	1,287,582	1,388,335
Operating grants and contributions	4,653,491	21,132,464	10,608,459	12,245,420	12,604,477
Capital grants and contributions		893,925	1,806,735	1,213,663	
Total governmental activities program revenues	<u>24,278,211</u>	<u>45,119,334</u>	<u>42,913,713</u>	<u>35,925,903</u>	<u>39,350,083</u>
Business-type activities:					
Charges for services:					
Water	17,437,552	16,174,325	15,997,464	18,085,363	18,377,961
Sewer	16,111,883	16,042,136	15,830,994	18,330,302	18,933,853
Parking	6,957,734	4,328,687	3,691,597	3,462,633	3,066,276
Market	74,926	80,162	151,244	131,348	125,347
Golf courses	1,282,804	1,201,935	1,172,313	1,042,785	998,218
Airport	703,886	687,558	716,242	830,657	719,842
Stormwater	2,421,378	2,641,035	2,881,077	3,529,955	3,758,240
Hydropower	308,471	214,556	261,730		
Solid Waste				478,493	814,140
Total business-type activities program revenues	<u>45,298,634</u>	<u>41,370,394</u>	<u>40,702,661</u>	<u>45,891,536</u>	<u>46,793,877</u>
Total primary government program revenues	<u>\$ 69,576,845</u>	<u>\$ 86,489,728</u>	<u>\$ 83,616,374</u>	<u>\$ 81,817,439</u>	<u>\$ 86,143,960</u>

TABLE II

CITY OF ANN ARBOR  
CHANGES IN NET ASSETS  
LAST FIVE FISCAL YEARS-CONTINUED  
(accrual basis of accounting)  
(Unaudited)

	Fiscal Year				
	2002	2003	2004	2005	2006
Net (Expense) Revenue					
Governmental activities	\$ (75,114,777)	\$ (63,512,780)	\$ (57,151,979)	\$ (66,460,359)	\$ (57,505,205)
Business-type activities	9,675,566	5,830,067	3,776,510	695,691	(857,894)
Total primary government net expense	<u>\$ (65,439,211)</u>	<u>\$ (57,682,713)</u>	<u>\$ (53,375,469)</u>	<u>\$ (65,764,668)</u>	<u>\$ (58,363,099)</u>
General Revenues and Other Changes in Net Assets					
Governmental activities:					
Taxes					
Property taxes, levied for general purposes	\$ 55,094,195	\$ 53,597,747	\$ 56,035,123	\$ 51,423,077	\$ 45,587,059
Property taxes, levied for debt services	2,707,538	7,686,425	8,127,043	8,029,733	16,430,807
Special Assessment	293,355				
State-shared revenues and grants (unrestricted)	21,877,296	13,227,051	11,865,469	11,674,762	11,469,467
Investment income	3,659,707	2,495,814	907,722	2,181,348	4,246,277
Gain on sale of assets	138,683	268,143	-		
Special Item					4,100,000
Transfers	1,813,700	1,623,844	646,593	1,870,457	7,134,212
Other	452,366	1,104,228	(335,508)	367,458	194,410
Total governmental activities	<u>86,036,840</u>	<u>80,003,252</u>	<u>77,246,442</u>	<u>75,546,835</u>	<u>89,162,232</u>
Business-type activities:					
Taxes					
Property taxes, levied for general purposes				10,011,080	10,399,700
Property taxes, levied for debt services					
State-shared revenues and grants (unrestricted)					
Investment income	1,589,314	1,083,726	304,132	1,651,492	2,177,470
Gain on sale of assets	90,103	46,255			
Transfers	(1,813,700)	(1,623,844)	335,508	(1,870,457)	(7,134,212)
Total business-type activities	<u>(134,283)</u>	<u>(493,863)</u>	<u>639,640</u>	<u>9,792,115</u>	<u>5,442,958</u>
Total primary government	<u>\$ 85,902,557</u>	<u>\$ 79,509,389</u>	<u>\$ 77,886,082</u>	<u>\$ 85,338,950</u>	<u>\$ 94,605,190</u>
Change in Net Assets					
Governmental activities	\$ 10,922,063	\$ 16,490,472	\$ 20,094,463	\$ 9,086,476	\$ 31,641,903
Business-type activities	9,541,283	5,336,204	4,416,150	10,487,806	4,585,064
Total primary government	<u>\$ 20,463,346</u>	<u>\$ 21,826,676</u>	<u>\$ 24,510,613</u>	<u>\$ 19,574,282</u>	<u>\$ 36,226,967</u>

Source: City of Ann Arbor Financial Services, Accounting Services Unit

CITY OF ANN ARBOR  
FUND BALANCES, GOVERNMENTAL FUNDS  
LAST TEN FISCAL YEARS  
(modified accrual basis of accounting)  
(Unaudited)

TABLE III

	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
General Fund										
Reserved	\$ 582,360	\$ 497,526	\$ 571,515	\$ 1,580,541	\$ 2,156,339	\$ 1,128,857	\$ 798,049	\$ 1,346,170	\$ 920,078	\$ 485,868
Unreserved	11,265,938	13,248,759	13,644,975	13,800,396	7,964,747	6,488,557	7,759,394	8,117,344	9,740,289	11,962,837
Total General Fund	<u>\$ 11,848,298</u>	<u>\$ 13,746,285</u>	<u>\$ 14,216,490</u>	<u>\$ 15,380,937</u>	<u>\$ 10,121,086</u>	<u>\$ 7,617,414</u>	<u>\$ 8,557,443</u>	<u>\$ 9,463,514</u>	<u>\$ 10,660,367</u>	<u>\$ 12,448,705</u>
All Other Governmental Funds										
Reserved	\$ 7,819,973	\$ 7,837,630	9,731,247	\$ 8,975,856	\$ 9,271,201	\$ 11,954,731	\$ 15,115,496	\$ 13,463,689	\$ 7,410,788	\$ 33,451,679
Unreserved, reported in:										
Special revenue funds	9,684,656	13,226,904	7,159,520	15,000,029	15,096,984	23,169,533	26,026,533	21,250,565	35,852,445	33,634,713
Capital projects funds	2,975,394	3,271,365	6,505,968	11,497,955	13,088,634	13,724,712	15,260,231	21,486,018	10,799,473	11,709,820
Central duplicating projects	87,198	92,617	2,543							
Fleet services projects	511,696									
Information Services projects	79,644	84,868	672,242	1,412,317	2,060,987	321,977				
Debt service funds	(26,930)						1,990,759	1,828,253	1,621,672	
Subsequent year's expenditures	1,504,030	1,982,598	10,148,173	1,092,341	1,512,921	2,527,377	1,963,668			
Undesignated										26,634,034
Total all other governmental funds	<u>\$ 22,635,661</u>	<u>\$ 26,495,982</u>	<u>\$ 34,219,693</u>	<u>\$ 37,978,498</u>	<u>\$ 41,030,727</u>	<u>\$ 51,698,330</u>	<u>\$ 60,356,687</u>	<u>\$ 58,028,525</u>	<u>\$ 55,684,378</u>	<u>\$ 105,430,246</u>

Source: City of Ann Arbor Financial Services, Accounting Services Unit

TABLE IV

CITY OF ANN ARBOR  
CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS  
LAST TEN FISCAL YEARS  
(modified accrual basis of accounting)  
(Unaudited)

	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
<b>Revenues</b>										
Taxes	\$ 46,036,783	\$ 46,174,774	\$ 50,960,730	\$ 52,787,520	\$ 54,797,240	\$ 57,801,733	\$ 61,284,172	\$ 64,162,168	\$ 59,452,810	\$ 62,017,866
Special Assessments/improvement charges	643,868	464,143	460,225	499,979	471,113	293,355	693,925	714,075	130,872	122,147
Licenses, fees & permits	1,772,740	2,698,512	2,945,101	4,099,147	3,122,293	2,856,377	3,001,458	3,145,919	3,715,412	3,229,331
Federal grants	2,913,479	2,775,261	3,335,371	2,480,560	3,279,419	2,475,059	3,018,503	2,132,558	3,642,697	4,062,637
State shared revenues and grants	18,941,730	19,987,187	20,399,496	21,460,079	22,428,661	24,055,728	31,341,012	20,341,372	20,077,465	20,011,307
Charges for services	9,360,459	9,564,778	9,154,370	10,388,179	10,198,953	7,251,540	8,175,886	13,268,471	9,343,466	9,608,385
Fines & penalties	4,260,334	5,052,292	5,238,081	5,737,482	5,541,929	5,321,733	5,901,225	5,479,578	5,787,212	5,997,715
Interest and penalties	204,987	174,726	142,938	104,810	100,644	120,128	86,841	95,095	50,227	39,894
Investment Income	3,540,764	3,458,246	3,204,491	3,129,341	5,495,927	3,355,595	2,324,906	786,244	1,830,015	3,844,416
Rental	73,744	71,893	52,171	50,107	49,183	53,363	52,839	108,655	58,482	128,882
Contributions and donations	28,855	81,807	58,379	295,672	104,087	50,176	140,025	398,211	232,208	164,162
Sale of property and equipment	232,576	122,071	105,267	420,055	15,051	15,227	97,688	49,471	18,370	3,470
Intra-governmental sales	25,967	27,879	18,622	24,183	143,388	83,826	47,048	526,340	57,020	157,850
Reimbursements and refunds	48,442			44,584	482,100					
Miscellaneous	289,783	721,536	1,807,085	845,367	467,197	503,275	1,104,228	646,593	367,458	194,410
<b>Total Revenues</b>	<b>88,405,491</b>	<b>93,375,205</b>	<b>97,860,327</b>	<b>102,148,045</b>	<b>106,695,365</b>	<b>104,237,115</b>	<b>117,469,736</b>	<b>111,855,746</b>	<b>104,963,752</b>	<b>109,582,472</b>
<b>Expenditures</b>										
General government	60,452,320	53,038,505	61,093,707	66,528,891	67,977,909	64,786,881	76,380,626	71,949,620	62,580,503	58,196,427
Police	13,335,928	17,671,985	17,924,627	17,973,593	22,651,761	20,601,743	20,741,850	22,609,902	23,452,225	25,434,096
Fire	7,228,089	9,346,092	9,688,587	10,257,102	11,745,575	11,323,225	11,178,956	10,862,190	11,107,162	12,058,017
Capital outlay	6,249,445	1,719,513	400,631	2,151,920	4,324,540	1,110,978	1,687,981	7,216,099	2,438,127	10,943,071
Debt service:										
Principal	2,923,417	3,309,891	2,940,190	3,449,129	3,330,792	2,544,562	2,470,651	2,556,100	2,516,100	2,508,050
Interest	2,534,916	2,361,938	2,147,998	1,656,535	1,472,433	1,066,153	970,388	1,187,383	971,713	1,329,166
<b>Total expenditures</b>	<b>92,724,112</b>	<b>87,447,722</b>	<b>94,185,740</b>	<b>102,017,170</b>	<b>111,503,000</b>	<b>101,433,542</b>	<b>113,430,662</b>	<b>116,381,294</b>	<b>103,065,630</b>	<b>110,468,827</b>
<b>Excess of revenues over (under) expenditures</b>	<b>(4,318,621)</b>	<b>5,927,483</b>	<b>3,684,587</b>	<b>130,875</b>	<b>(4,807,635)</b>	<b>2,803,573</b>	<b>4,039,074</b>	<b>(4,525,548)</b>	<b>1,897,822</b>	<b>(888,355)</b>
<b>Other Financing Sources (Uses):</b>										
Transfers in	10,728,884	11,448,169	25,545,391	19,136,672	18,173,436	16,973,562	9,652,384	7,927,995	11,784,483	21,817,720
Transfers out	(10,449,031)	(10,757,737)	(21,130,404)	(17,102,352)	(15,704,753)	(15,126,528)	(8,037,958)	(8,324,538)	(9,577,715)	(12,938,988)
Proceeds of refunding bonds										
Payment to refunded bond escrow agent			(15,180,759)							
Bond Proceeds			1,507,050			815,000	4,000,000			44,885,000
Bond Discount							(55,114)			
Bond Issuance Costs						(12,225)				(305,812)
Note Proceeds	455,000		563,417		263,041			3,500,000		
<b>Total other financing sources (uses)</b>	<b>734,853</b>	<b>690,422</b>	<b>4,609,328</b>	<b>2,034,320</b>	<b>2,731,724</b>	<b>2,649,809</b>	<b>5,559,312</b>	<b>3,103,457</b>	<b>2,208,768</b>	<b>53,457,920</b>
<b>Net change in fund balances</b>	<b>\$ (3,583,768)</b>	<b>\$ 6,617,905</b>	<b>\$ 8,193,916</b>	<b>\$ 2,165,195</b>	<b>\$ (2,075,911)</b>	<b>\$ 5,453,382</b>	<b>\$ 9,598,386</b>	<b>\$ (1,422,091)</b>	<b>\$ 4,104,690</b>	<b>\$ 52,571,565</b>
<b>Debt service as a percentage of noncapital expenditures</b>	<b>6.3%</b>	<b>6.6%</b>	<b>5.4%</b>	<b>5.1%</b>	<b>4.5%</b>	<b>3.6%</b>	<b>3.1%</b>	<b>3.4%</b>	<b>3.5%</b>	<b>3.9%</b>

Source: City of Ann Arbor Financial Services, Accounting Services Unit

CITY OF ANN ARBOR  
 ASSESSED VALUE AND ACTUAL VALUE OF TAXABLE PROPERTY  
 LAST TEN FISCAL YEARS  
 (Unaudited)

TABLE V

Fiscal Year Ended June 30,	Residential Property	Commercial & Industrial	Less: Tax-exempt Property (4)	Total Taxable Value	Total Direct Tax Rate
1997	\$ 2,487,377,168	\$ 233,044,900		\$ 2,720,422,068	16.8015
1998	2,561,309,025	242,149,600		2,803,458,625	17.2215
1999	2,696,959,403	260,367,000		2,957,326,403	17.3056
2000	2,812,309,779	280,181,600		3,092,491,379	17.1320
2001	2,949,820,311	267,104,900		3,216,925,211	17.1295
2002	3,153,455,816	269,398,975		3,422,854,791	17.0025
2003	3,375,930,999	299,043,900		3,674,974,899	16.8691
2004	3,554,607,491	274,842,600		3,829,450,091	16.9015
2005	3,755,255,488	273,920,800		4,029,176,288	16.9013
2006	3,964,733,709	256,014,650		4,220,748,359	16.8156

## Notes:

- (1) Taxable property in the City is assessed by the City Assessor and is subject to review by the County Board of Equalization. Tax levies on property in Michigan were applied against the assessed value of all property as finally equalized by the State through 1994. Current statutes require assessments to be 50% of the true cash value of both personal and real property for equalization purposes.
- (2) In accordance with Act 409, Public Acts of Michigan, 1965, and Article 9, Section 2 of the Michigan Constitution, as amended by Joint Resolution S on March 15, 1994, state equalized value shall not exceed 50% of the true cash value. With the passage of Proposal "A", another value is required on each property. The new value is termed "taxable value". Increases in taxable value are limited to 5%, the Consumer Price Index, or State Equalized Value, whichever is less.
- (3) For the Industrial Facilities tax roll, the millage rate is 50% of the normal millage rate.
- (4) As Tax Exempt Property has a zero dollar value, no value is listed.

Source: City of Ann Arbor Financial Services, Assessing Unit

CITY OF ANN ARBOR  
DIRECT AND OVERLAPPING PROPERTY TAX RATES  
(PER \$1,000 OF TAXABLE VALUE)  
LAST TEN FISCAL YEARS  
(Unaudited)

TABLE VI

	City of Ann Arbor Direct Rate								Overlapping Rates					Total
	Fiscal Year	General Operating	Refuse Collection	Transportation*	Employee Benefits	Debt Service	Parks	Major Street Repair	Total Direct Tax Rate	Ann Arbor Public Schools**	Ann Arbor District Library***	Washtenaw County	Washtenaw Community College	
Homestead	1996-97	6.4515	2.5806	2.1505	1.9060	0.9241	0.8379	1.9509	16.8015	20.8286	1.6500	5.5775	2.9320	47.7907
Non-Homestead	1996-97	6.4515	2.5806	2.1505	1.9060	0.9241	0.8379	1.9509	16.8015	30.6155	1.6500	5.5775	2.9320	57.5774
Homestead	1997-98	6.4515	2.5806	2.1505	2.1145	1.0864	0.8379	2.0000	17.2215	21.4759	1.6500	5.5322	3.9029	49.7825
Non-Homestead	1997-98	6.4515	2.5806	2.1505	2.1145	1.0864	0.8379	2.0000	17.2215	30.5031	1.6500	5.5322	3.9029	58.8097
Homestead	1998-99	6.4515	2.5806	2.1505	2.1505	1.0275	0.9450	2.0000	17.3056	20.6808	1.6500	5.5629	4.1029	49.3022
Non-Homestead	1998-99	6.4515	2.5806	2.1505	2.1505	1.0275	0.9450	2.0000	17.3056	30.2352	1.6500	5.5629	4.1029	58.8566
Homestead	1999-00	6.4515	2.5806	2.1505	2.1505	0.8539	0.9450	2.0000	17.1320	19.9233	1.6500	5.5809	4.0319	46.3181
Non-Homestead	1999-00	6.4515	2.5806	2.1505	2.1505	0.8539	0.9450	2.0000	17.1320	29.6256	1.6500	5.5809	4.0319	58.0204
Homestead	2000-01	6.0655	2.5674	2.1395	2.1395	0.7901	1.4377	1.9898	17.1295	18.8558	1.9500	5.5317	3.9944	47.4514
Non-Homestead	2000-01	6.0655	2.5674	2.1395	2.1395	0.7901	1.4377	1.9898	17.1295	29.4965	1.9500	5.5317	3.9944	58.1021
Homestead	2001-02	6.0315	2.5530	2.1275	2.1275	0.7549	1.4295	1.9786	17.0025	18.1505	1.9500	5.7269	3.9721	46.8020
Non-Homestead	2001-02	6.0315	2.5530	2.1275	2.1275	0.7549	1.4295	1.9786	17.0025	29.1050	1.9500	5.7269	3.9721	57.7565
Homestead	2002-03	6.0315	2.5302	2.1085	2.1085	0.6916	1.4166	1.9822	16.8691	19.2398	1.9500	5.6420	3.8559	47.5558
Non-Homestead	2002-03	6.0315	2.5302	2.1085	2.1085	0.6916	1.4166	1.9822	16.8691	30.6320	1.9500	5.6420	3.8559	58.8490
Homestead	2003-04	6.0315	2.5264	2.1054	2.1054	0.7300	1.4236	1.9792	16.9015	17.1741	1.9500	5.5819	3.8343	45.4418
Non-Homestead	2003-04	6.0315	2.5264	2.1054	2.1054	0.7300	1.4236	1.9792	16.9015	29.5202	1.9500	5.5819	3.8343	57.7879
Principle Residence Exemption (PRE)	2004-05	6.2125	2.5137	2.0948	2.0948	0.6000	1.4162	1.9693	16.9013	19.1890	1.9476	5.5493	3.7748	47.3820
Non-PRE	2004-05	6.2125	2.5137	2.0948	2.0948	0.6000	1.4162	1.9693	16.9013	31.5090	1.9476	5.5493	3.7748	58.6820
Principle Residence Exemption (PRE)	2005-06	6.2318	2.4925	2.0772	2.0772	0.5800	1.4042	1.9527	16.8156	18.7994	1.9332	5.5024	3.7249	46.7755
Non-PRE	2005-06	6.2318	2.4925	2.0772	2.0772	0.5800	1.4042	1.9527	16.8156	31.2636	1.9332	5.5024	3.7249	59.2397

\* Represents millage collected for Ann Arbor Transportation Authority.

\*\* Includes Washtenaw Intermediate School Ann Arbor District millage of 3.9970 mills and State Education Tax of 6.0 mills on both Principle Residence and Non-Principle Residence properties. On Non-Principle Residence properties, an additional 12.3461 mills is included for School Operating Tax.

\*\*\* Ann Arbor District Library is now a separate taxing unit, beginning with 1996 tax, and previously was included in Ann Arbor Public Schools millage.

The City has enjoyed a stable property tax rate in all taxing jurisdictions due to annual increases in valuations as a result of economic growth.

Source: City of Ann Arbor Financial Services, Assessing Unit



CITY OF ANN ARBOR  
PRINCIPAL PROPERTY TAXPAYERS  
CURRENT YEAR & NINE YEARS AGO  
(Unaudited)

TABLE VII

Taxpayer	Type of Business	2006			1998		
		Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value
Pfizer-Parke Davis	Pharmaceuticals	\$ 215,403,800	1	5.10%	\$ 98,825,800	1	3.53%
Briarwood Shopping Complex	Shopping Center	37,649,209	2	0.89%	35,630,475	2	1.27%
Detroit Edison	Utility	29,091,101	3	0.69%	24,962,414	3	0.89%
Arbor Land	Shopping Center	21,340,831	4	0.51%			
Geddes Lakes Cooperative	Co-op Housing	17,681,124	5	0.42%	12,496,200	5	0.45%
Windemere Park Apartments	Apartments	17,520,000	6	0.41%	11,771,700	6	0.42%
McKinley Associates	Apartments	16,068,769	7	0.38%			
Great Lakes REIT	Office Building	15,710,000	8	0.37%			
Village Cooperative	Co-op Housing	14,263,405	9	0.34%	10,866,500	7	0.39%
Michigan Consolidated Gas Co.	Utility	13,367,000	10	0.32%	20,924,500	4	0.75%
Woodbury Garden Associates	Apartments				10,279,500	8	0.37%
Woodland Meadows Apartments	Apartments				9,595,902	9	0.34%
777 Eisenhower	Office Building				8,429,600	10	0.30%
Total		<u>\$ 398,095,239</u>		<u>9.43%</u>	<u>\$ 243,782,591</u>		<u>8.71%</u>

Source: City of Ann Arbor Financial Services, Assessing Unit

TABLE VIII

CITY OF ANN ARBOR  
PROPERTY TAX LEVIES AND COLLECTIONS  
LAST TEN FISCAL YEARS  
(Unaudited)

Fiscal Year Ended 30-Jun	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amounts	Percentage of Levy
1997	\$ 44,954,725	\$ 43,764,688	97.4%	\$ 1,070,564	\$ 44,835,252	99.7%
1998	47,465,910	46,477,106	97.9%	875,092	47,352,198	99.8%
1999	50,297,248	49,305,383	98.0%	883,949	50,189,332	99.8%
2000	52,075,252	51,162,749	98.3%	795,259	51,958,008	99.8%
2001	54,210,561	53,385,722	98.5%	753,115	54,138,837	99.9%
2002	57,214,924	56,263,669	98.3%	832,408	57,096,077	99.8%
2003	61,993,518	60,937,583	98.3%	844,144	61,781,727	99.7%
2004	64,735,506	63,519,485	98.1%	1,015,842	64,535,327	99.7%
2005	68,096,928	66,903,671	98.2%	1,050,334	67,954,005	99.8%
2006	71,971,311	70,772,145	98.3%	9,358	70,781,503	98.3%

Ad valorem taxes are levied July 1st annually, and are due July 31st. Delinquent real property taxes are turned over to the County for collection the following March 1st. The County pays all its municipalities from a revolving fund for delinquent real property taxes. Delinquent personal property taxes are negligible.

Source: City of Ann Arbor Financial Services, Treasury Unit

CITY OF ANN ARBOR  
RATIOS OF OUTSTANDING DEBT BY TYPE  
LAST TEN FISCAL YEARS  
(dollars in thousands, except per capita)  
(Unaudited)

TABLE IX

Fiscal Year	Governmental Activities					Business-Type Activities					Total Primary Government	Percentage of Personal Income	Per Capita
	Capital Projects Bonds	General Obligation Portion of Special Assessment Bonds	General Obligation Portion of Special Revenue Bonds	Special Assessment Bonds	Other Long-Term Debt	Ann Arbor Building Authority Bonds	Lease Contract Payable	Revenue Bonds	Other Long-term Debt	Other Bonds			
1996-97	\$ 25,225	\$ 1,170	\$ 6,625	\$ 4,075	\$ 3,234	\$ 9,465	\$ 3,975	\$ 47,515	\$ 921	\$ 6,125	\$ 108,330	1.17%	990
1997-98	24,150	960	6,050	3,440	2,445	8,090	3,400	44,875	740	5,690	99,840	1.00%	912
1998-99	21,895	1,485	5,910	3,595	2,523	22,355	2,800	50,780	923	5,470	117,736	1.10%	1,076
1999-00	20,620	1,220	5,332	3,030	1,921	32,035	2,200	47,615	732	4,973	119,678	1.04%	1,093
2000-01	19,245	1,055	4,752	2,550	1,446	30,795	1,600	44,285	571	4,463	110,762	0.94%	972
2001-02	17,770	1,250		2,730	876	33,040	1,200	45,855	896	3,939	107,556	0.88%	943
2002-03	16,160	1,150	4,000	2,335	460	31,505	800	42,210	721	3,269	102,630	0.79%	900
2003-04	14,515	1,025	3,925	1,930	3,644	29,665	400	75,240	762	2,587	134,013	1.00%	1,175
2004-05	12,760	895	3,790	1,530	3,548	28,270		71,405	2,260	1,406	125,884	0.92%	1,101
2005-06	35,575	760	23,900	1,165	3,500	26,555		66,750	2,972	1,061	162,238	1.18%	1,419

Note: For fiscal year 2005-06 percent of personal income, the divisor used was for 2005 since 2006 Personal income is not available until September 2007.

Source: City of Ann Arbor Financial Services, Accounting Services Unit

TABLE X

CITY OF ANN ARBOR  
RATIOS OF GENERAL BONDED DEBT OUTSTANDING  
LAST TEN FISCAL YEARS  
(dollars in thousands, except per capita)  
(Unaudited)

General Bonded Debt Outstanding						
Fiscal Year	Capital Projects Bonds	General Obligation Portion of Special Assessment Bonds	General Obligation Portion of Special Revenue Bonds	Total	Percentage of Actual Taxable Value of Property	Per Capita
1996-97	\$ 25,225	\$ 1,170	\$ 6,625	\$ 33,020	1.21%	\$ 301.72
1997-98	24,150	960	6,050	31,160	1.11%	284.72
1998-99	21,895	1,485	5,910	29,290	0.99%	267.64
1999-00	20,620	1,220	5,332	27,172	0.88%	248.21
2000-01	19,245	1,055	4,752	25,052	0.78%	219.77
2001-02	17,770	1,250		19,020	0.56%	166.81
2002-03	16,180	1,150	4,000	21,330	0.58%	187.01
2003-04	14,515	1,025	3,925	19,465	0.51%	170.65
2004-05	12,760	895	3,790	17,445	0.43%	152.59
2005-06	35,575	760	23,900	60,235	1.43%	526.86

Note: Details regarding the city's outstanding debt can be found in the notes to the financial statements.  
See Schedule 5 (Exhibit C-1) for property value data.  
Population data can be found in Schedule 14 (Exhibit E-1)

Source: City of Ann Arbor Financial Services, Accounting Services Unit

CITY OF ANN ARBOR  
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT  
AS OF JUNE 30, 2006  
(dollars in thousands)  
(Unaudited)

TABLE XI

<u>Government Unit</u>	<u>Net Debt Outstanding</u>	<u>Estimated Percentage Applicable</u>	<u>Estimated Share of Overlapping Debt</u>
<b>DIRECT DEBT</b>			
General Obligation Bonds	\$ 36,168		
Ann Arbor Building Authority Bonds	26,555		
Other Long-Term Debt	1,873		
City direct debt	<u>\$ 64,596</u>		
<b>OVERLAPPING DEBT</b>			
Ann Arbor School District	\$ 137,545	61.020%	\$ 83,930
Washtenaw Community College	48,395	31.600%	15,293
Washtenaw County at Large	35,830	30.860%	11,057
Overlapping debt	<u>\$ 221,770</u>		<u>\$ 110,280</u>
Total direct & overlapping debt			<u>\$ 174,876</u>

Source: City of Ann Arbor Financial Services, Accounting Services Unit

CITY OF ANN ARBOR  
LEGAL DEBT MARGIN INFORMATION  
LAST TEN FISCAL YEARS  
(Unaudited)

TABLE XII

Legal Debt Margin Calculation for Fiscal Year 2006

Taxable value of real and personal property	\$ 4,220,748,359
Debt limit (10% of assessed value)	422,074,836
Debt applicable to limit:	
Not direct debt	\$ 64,596,427
Less: Special Assessment bonds (general obligation portion)	<u>(1,160,231)</u>
Total net debt applicable to limit	<u>\$ 63,436,196</u>
Legal debt margin	<u>\$ 358,638,640</u>

	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Debt limit	\$ 272,042,207	\$ 280,345,863	\$ 295,732,640	\$ 309,249,138	\$ 321,692,521	\$ 342,285,479	\$ 367,497,490	\$ 382,945,009	\$ 402,917,629	\$ 422,074,836
Total net debt applicable to limit	37,924,287	34,684,605	46,956,121	54,575,642	51,485,511	51,625,889	47,909,852	48,124,150	43,944,619	63,436,196
Legal debt margin	<u>\$ 234,117,910</u>	<u>\$ 245,661,258</u>	<u>\$ 248,776,519</u>	<u>\$ 254,673,496</u>	<u>\$ 270,207,010</u>	<u>\$ 290,659,590</u>	<u>\$ 319,587,638</u>	<u>\$ 334,820,859</u>	<u>\$ 358,973,010</u>	<u>\$ 358,638,640</u>
Total net debt applicable to the limit as a percentage of debt limit										

Source: City of Ann Arbor Financial Services, Accounting Services Unit

TABLE XIII

CITY OF ANN ARBOR  
PLEDGED-REVENUE COVERAGE  
LAST TEN FISCAL YEARS  
(Unaudited)

Fiscal Year	Operating Revenue (1)	Operating Expenses (2)	Net Revenue Available For Debt Service	Debt Service		Total	Coverage
				Principal	Interest		
Water Supply System:							
1996-97	\$ 13,386,972	\$ 9,739,310	\$ 3,647,662	\$ 1,655,000	\$ 2,038,258	\$ 3,693,256	1.0
1997-98	14,385,459	10,208,257	4,177,202	1,520,000	1,983,116	3,483,116	1.2
1998-99	13,491,641	10,398,392	3,093,249	1,525,000	1,862,659	3,387,659	0.9
1999-00	15,347,694	10,323,987	5,023,707	1,880,000	2,000,997	3,880,997	1.3
2000-01	15,324,166	9,654,378	5,669,788	1,985,000	1,775,399	3,760,399	1.5
2001-02	17,772,569	9,955,579	7,816,990	2,235,000	1,653,572	3,888,572	2.0
2002-03	16,510,943	10,629,592	5,881,351	2,240,000	1,779,305	4,019,305	1.5
2003-04	16,105,264	11,065,321	5,039,943	2,470,000	1,580,236	4,050,236	1.2
2004-05	18,365,626	12,229,142	6,136,484	2,665,000	1,753,678	4,418,678	1.4
2005-06	18,719,846	12,793,461	5,926,385	3,090,000	1,266,128	4,356,128	1.4
Sewage Disposal System:							
1996-97	\$ 13,735,303	\$ 9,223,847	\$ 4,511,456	\$ 1,245,000	\$ 721,655	\$ 1,966,655	2.3
1997-98	14,896,297	9,850,824	5,045,473	1,040,000	653,672	1,693,672	3.1
1998-99	12,610,932	9,873,398	2,937,534	1,095,000	575,047	1,670,047	1.8
1999-00	14,161,088	11,238,645	2,944,443	1,200,000	528,680	1,728,680	1.7
2000-01	15,140,567	12,526,551	2,614,016	1,250,000	478,705	1,728,705	1.5
2001-02	16,870,157	10,147,750	6,722,407	1,305,000	411,860	1,716,860	3.9
2002-03	16,555,436	9,578,002	6,977,434	1,300,000	367,060	1,667,060	4.2
2003-04	15,936,987	10,904,443	5,034,544	1,115,000	322,820	1,437,820	3.5
2004-05	19,351,456	9,687,652	9,663,804	1,125,000	1,694,292	2,819,292	3.4
2005-06	20,291,760	9,621,514	10,670,246	1,440,000	1,243,005	2,683,005	4.0
Stormwater Sewer System:							
1996-97	\$ 2,042,180	\$ 1,598,145	\$ 444,035	\$ 75,000	\$ 74,647	\$ 149,647	3.0
1997-98	2,054,249	1,533,796	520,453	80,000	69,204	149,204	3.5
1998-99	2,137,340	1,713,109	424,231	80,000	64,506	144,506	2.9
1999-00	1,999,327	1,721,429	277,898	85,000	61,750	146,750	1.9
2000-01	2,129,529	1,666,023	463,506	95,000	56,508	151,508	3.1
2001-02	2,487,424	1,581,689	905,735	100,000	51,781	151,781	6.0
2002-03	2,688,709	1,681,136	1,007,573	105,000	45,270	150,270	6.7
2003-04	2,859,418	1,691,556	1,167,862	110,000	41,366	151,366	7.7
2004-05	3,578,596	1,449,544	2,129,052	115,000	36,243	151,243	14.1
2005-06	3,810,641	1,333,400	2,477,241	125,000	51,547	176,547	14.0

## Notes:

(1) Includes interest income.

(2) Excludes depreciation expense.

Source: City of Ann Arbor Financial Services, Accounting Services Unit

CITY OF ANN ARBOR  
DEMOGRAPHIC AND ECONOMIC STATISTICS  
LAST TEN CALENDAR YEARS  
(Unaudited)

TABLE XIV

Year	Population (1)	Personal income (thousands of dollars) (2)	Per Capita Personal Income (2)	Median Age (1)	Education Level in Years of Schooling (1)	School Enrollment (3)	Unemployment Rate % (4)
1997	109,440	9,251,319	29,998	27.9	16.5	15,560	2.5
1998	109,440	9,994,082	31,971	27.9	16.5	16,800	2.0
1999	109,440	10,710,960	33,654	27.9	16.5	16,330	1.8
2000	109,472	11,541,043	35,593	27.9	16.5	16,530	1.5
2001	113,992	11,774,476	35,873	27.9	16.5	16,589	2.9
2002	114,024	12,226,644	36,783	28.1	16.5	16,768	2.9
2003	114,061	12,989,048	38,706	28.1	16.5	16,664	4.1
2004	114,061	13,391,280	39,528	28.1	16.5	16,724	4.4
2005	114,328	13,751,795*	40,228*	28.1	16.5	16,980	4.7
2006	114,328	n/a*	n/a*	27.3	16.5	16,980	4.4

## Sources:

(1) U. S. Census Bureau

(2) Bureau of Economic Analysis: Regional Economic  
<http://www.bea.gov/bea/regional/reis/default.cfm?catab=CA1-3&section=2>

\*Note: Accelerated estimates of personal income for 2005 from metropolitan statistical areas (MSAs) were released on September 6, 2006.  
2006 data is not available until September 2007.

(3) Ann Arbor Public School's Child Accounting Office.  
[http://www.aaps.k12.mi.us/aaps.about/demographic\\_data](http://www.aaps.k12.mi.us/aaps.about/demographic_data)

(4) Michigan Employment Security Commission statistics for Washtenaw County.  
[http://stats.bls.gov/eag/eag.mi\\_annarbor\\_msa.htm](http://stats.bls.gov/eag/eag.mi_annarbor_msa.htm)



CITY OF ANN ARBOR  
PRINCIPAL EMPLOYERS  
CURRENT YEAR & NINE YEARS AGO  
(Unaudited)

TABLE XV

Taxpayer	2006			1997		
	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
University of Michigan	29,165	1	46.38%	14,833	1	43.25%
Univ. of Mich Hospitals & Health System	17,057	2	27.12%	7,453	2	21.73%
St. Joseph Mercy Health System	5,077	3	8.07%	4,094	3	11.94%
Ann Arbor Public Schools	3,000	4	4.77%	1,900	4	5.54%
Pfizer Inc.	2,500	5	3.98%			
Washtenaw Community College	1,500	6	2.39%	1,400	6	4.08%
Borders Group, Inc.	1,330	7	2.11%	1,500	5	4.37%
Veterans Administration Medical Center	1,230	8	1.96%			
Washtenaw County	1,200	9	1.91%			
City of Ann Arbor	828	10	1.31%	969	8	2.83%
UMI				1,000	7	2.92%
Domino's Pizza				650	9	1.90%
Edward Brothers Inc.				500	10	1.44%
Total	<u>62,887</u>		<u>100.00%</u>	<u>\$ 34,299</u>		<u>100.00%</u>

Source: Business Week (Prime Numbers: Top 100 Employers, January's Edition) for 2006  
Crain's List (Washtenaw County's Largest Employers) May 4, 1998 Edition

CITY OF ANN ARBOR  
FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION/PROGRAM  
LAST TEN FISCAL YEARS  
(Unaudited)

TABLE XVI

Full-Time Equivalent Employees as of June 30										
Function/Program	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
<b>General government</b>										
Financial Services	70	68	74	90	66	67	66	54	49	47
Community Services	29	39	37	37	37	72	73	65	67	56
Parks & Recreation	71	70	71	78	82	32	34	23	18	24
City Administrator Services	8	6	8	8	8	20	20	20	18	16
Mayor & Council	2	2	2	2	2	1	1	1	1	1
Other						1	1			
<b>Police</b>										
Officers	234	235	234	235	232	242	240	236	225	159
Civilians	10	11	10	11	12					67
<b>Fire</b>										
Firefighters & Officers	116	116	116	122	126	114	115	100	102	94
Civilians	5	5	5	5	5					
<b>Public Services</b>										
Project Management	32	32	32	33	35	35	35	34	19	17
Water	70	70	70	52	70	32	32	28	24	21
Wastewater Treatment	64	64	64	63	63	45	39	36	35	32
Field Operations	146	145	146	149	151	188	174	155	146	124
Other	59	51	47	50	55	50	50	50	74	103
15th District Court	40	40	40	40	40	40	40	41	41	41
Retirement System	3	3	3	3	4	4	4	4	4	4
Downtown Development Authority	3	1	3	2	2	2	3	3	3	3
City Attorney	12	12	12	12	14	14	14	13	14	14
Per Budget Book	974	970	974	992	1,004	959	941	863	840	823

Source: City of Ann Arbor Financial Services, Accounting Services Unit

TABLE XVII

CITY OF ANN ARBOR  
OPERATING INDICATORS BY FUNCTION/PROGRAM  
CURRENT FISCAL YEAR  
(Unaudited)

Function/Program	2006
Police	
Physical arrests	1,786
Parking violations	193,498
Traffic violations	348
Fire	
Emergency responses	5,629
Fire extinguished	330
Inspections	238
Refuse Collection	
Refuse collected (tons per day)	117.61
Recyclables collected (tons per day)	6.42
Other Public works	
Street resurfacing (miles)	6.25
Potholes repaired (tons)	449.43
Parks and Recreation	
Athletic field permits issued	1,142
Community center admissions	10,764
Water	
New connections	27,156
Water mains breaks	80
Average daily consumption (millions of gallons)	13,960
Peak daily consumption (millions of gallons)	21,594
Wastewater	
Average daily sewage treatment (millions of gallons)	19,600

Source: Various services areas within City of Ann Arbor

Reporting current year only for FY2006, not required to report retroactively.

\*GASB Statement No. 44 (Economic Condition Reporting: The Statistical Section)

CITY OF ANN ARBOR  
CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM  
LAST TEN FISCAL YEARS  
(Unaudited)

TABLE XVIII

Function/Program	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Police										
Station	1	1	1	1	1	1	1	1	1	1
Zone Offices	4	4	4	4	4	4	2	2	2	2
Patrol units	36	36	36	36	36	36	36	37	35	35
Fire Stations	6	6	6	6	6	6	6	5	5	5
Refuse Collection										
Collection Trucks	18	18	18	18	18	18	18	17	16	14
Other Public works										
Streets (miles)	280.5	282.93	283.83	283.83	289.74	289.74	289.74	291.46	295.13	295.13
Streetlights	6,759	6,784	8,369	8,483	8,547	8,685	8,701	8,786	8,858	7,028
Traffic signals	146	146	147	147	149	150	150	153	154	154
Parks and Recreation										
Acreage	1,918	2,040	1,983	1,983	2,027	2,027	2,027	2,055	2,055	2,056
Playgrounds	140	140	146	146	147	147	147	153	153	153
Baseball/softball diamonds	34	34	34	34	34	34	34	34	34	34
Soccer/football fields	21	21	21	22	22	22	22	23	23	25
Community centers	2	2	2	2	2	2	2	2	2	2
Water										
Water mains (miles)	430.46	434.72	439.55	442.21	439.81	448	440	441	478	481.6
Fire hydrants	3,023	3,582	3,604	3,750	3,800	3,428	3,294	3,345	3,428	3,466
Storage Capacity (thousands of gallons)	19,000	19,000	19,000	19,000	19,000	19,000	19,000	19,000	19,000	19,000
Wastewater										
Sanitary sewers (miles)	329.93	332.69	334.75	336.5	337.24	337.24	364	365	395	400.2
Storm sewers (miles)	194.16	196.12	197.78	198.78	199.07	199.07	271	271	341	359.9
Treatment capacity (thousands of gallons)	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000

Source: Various services areas within City of Ann Arbor

**City of Ann Arbor, Michigan**  
**SUPPLEMENTARY INFORMATION**  
**TO FINANCIAL STATEMENTS**  
**(FEDERAL AWARDS)**

**June 30, 2006**

City of Ann Arbor, Michigan

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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE  
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Honorable Mayor and  
Members of the City Council  
City of Ann Arbor  
Ann Arbor, Michigan

Compliance

We have audited the compliance of the City of Ann Arbor with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major Federal programs for the year ended June 30, 2006. The City of Ann Arbor's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major Federal programs is the responsibility of the City of Ann Arbor's management. Our responsibility is to express an opinion on the City of Ann Arbor's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the City of Ann Arbor's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Ann Arbor's compliance with those requirements.

As described in items 2006-4, 2006-5, and 2006-6 in the accompanying schedule of findings and questioned costs, the City of Ann Arbor did not comply with certain requirements applicable to major Federal programs. Compliance with such requirements is necessary, in our opinion, for the City of Ann Arbor to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the City of Ann Arbor complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of the City of Ann Arbor is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to Federal programs. In planning and performing our audit, we considered the City of Ann Arbor's internal control over compliance with requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the City of Ann Arbor's ability to administer a major Federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2006-4, 2006-5, and 2006-6.

A material weakness is a reportable condition in which the design or operation of one (1) or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts and grants caused by error fraud that would be material in relation to a major Federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider items 2006-4, 2006-5, and 2006-6 to be material weaknesses.

#### Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the aggregated discretely presented component units, each major fund, and the aggregate remaining fund information of City of Ann Arbor as of and for the year ended June 30, 2006, and have issued our report thereon dated October 30, 2006. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise City of Ann Arbor's basic financial statements. The accompanying schedule of expenditures of Federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects; in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of management, the Mayor, and the members of the City Council of the City of Ann Arbor, the pass-through grantors, and the Federal awarding agencies and is not intended to be, and should not be, used by anyone other than these specified parties.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

October 30, 2006



City of Ann Arbor

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2006

Federal Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantors Number	Current Year	
			Revenues	Expenditures
U.S. DEPARTMENT OF AGRICULTURE				
Natural Resources Conservation Service (Direct Program)				
Farm and Ranch Lands Protection Program	10.913	73-5D21-5-49	\$ 190,642	\$ 190,642
U.S. DEPARTMENT OF DEFENSE				
Direct Program				
Police equipment	12.000	N/A	9,100	9,100
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				
Direct Program				
Community Development Block Grants	14.228			
Program year 2003/04		B-03-MC-26-0001	248,314	248,314
Program year 2004/05		B-04-MC-26-0001	277,709	277,709
Program year 2005/06		B-05-MC-26-0001	<u>762,731</u>	<u>762,731</u>
			1,288,754	1,288,754
Direct Program				
HOME Investment Partnerships Program(a)	14.239			
Program year 2001/02		M-01-MC260201	314,901	314,901
Program year 2002/03		M-02-MC260201	63,338	63,338
Program year 2003/04		M-03-MC260201	173,459	173,459
Program year 2004/05		M-04-MC260201	599,153	599,153
Program year 2005/06		M-05-MC260201	<u>169,571</u>	<u>169,571</u>
			<u>1,320,422</u>	<u>1,320,422</u>
TOTAL DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			2,609,176	2,609,176
U.S. DEPARTMENT OF JUSTICE				
Direct Program				
Domestic Violence Grant	16.588	2005-WE-AX-0087	96,194	96,194
Direct Program				
Local Law Enforcement Block Grants Program	16.592			
		2003-LB-BX-1787	425	425
		2004-LB-BX-0931	499	499
		2005-DJ-BX-0788	<u>35,383</u>	<u>35,383</u>
			36,307	36,307
Passed through Michigan State Police Office of Highway Safety Planning				
2005 Youth Alcohol Enforcement	16.727	N/A	<u>12,054</u>	<u>12,054</u>
TOTAL DEPARTMENT OF JUSTICE			144,555	144,555

City of Ann Arbor

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

Year Ended June 30, 2006

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantors Number</u>	<u>Current Year</u>	
			<u>Revenues</u>	<u>Expenditures</u>
<b>U.S. DEPARTMENT OF ENERGY</b>				
Passed through Michigan Department of Commerce and Industry Services				
Transportation Technologies:				
Clean Cities Assistant	81.119	PLA-05-40	\$ 38,546	\$ 38,546
Ethanol Fueling Station		PLA-04-16	10,000	10,000
BioDiesel Fueling Stations		PLA-04-52	22,731	22,731
Clean Cities 2005 Coalition Support		PLA-05-46	3,000	3,000
BioDiesel Feasibility Study		PLA-05-10	<u>15,804</u>	<u>15,804</u>
			90,081	90,081
Idle Reduction Technologies	81.041	PLA-06-12	7,000	7,000
Energy Star Home		PLA-06-13	<u>10,262</u>	<u>10,262</u>
			<u>17,262</u>	<u>17,262</u>
<b>TOTAL DEPARTMENT OF ENERGY</b>			<b>107,343</b>	<b>107,343</b>
<b>FEDERAL ELECTION ASSISTANCE COMMISSION</b>				
Passed through State of Michigan Bureau of Elections				
Help America Vote Act (HAVA)	90.401	N/A	269,348	269,348
<b>U.S. DEPARTMENT OF HOMELAND SECURITY</b>				
Direct Programs	97.004			
Assistance to Firefighters 2004 (a)		EMW-2004-FG-13672	58,691	58,691
Assistance to Firefighters 2005 (a)		EMW-2005-FG-17641	<u>251,464</u>	<u>251,464</u>
			310,155	310,155
Passed through Michigan State Police Emergency Management Division				
Homeland Security Grants (a)	97.004			
2004 Homeland Security		N/A	524,193	524,193
2005 Homeland Security		N/A	86,305	86,305
2003 SHSGP Exercise Grant		N/A	21,993	21,993
2003 State Homeland Security Grant		N/A	250,817	250,817
2004 Homeland Security Grant		N/A	65,563	65,563
2003-2005 SHSGP Training Grant		N/A	<u>15,574</u>	<u>15,574</u>
			964,445	964,445
Flood Mitigation Plan Grants	97.029			
Flood Mitigation Plan – Technical Assistant		EMC-2003-GR-7041	8,888	8,888
Flood Mitigation Plan – Planning		EMC-2003-GR-7041	<u>4,794</u>	<u>4,794</u>
			13,682	13,682

City of Ann Arbor

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONCLUDED

Year Ended June 30, 2006

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantors Number</u>	<u>Current Year</u>			
			<u>Revenues</u>	<u>Expenditures</u>		
U.S. DEPARTMENT OF HOMELAND SECURITY (CONTINUED)						
Passed through Michigan State Police						
Emergency Management Division (Continued)						
Emergency Management Performance Grant	97.042	N/A	\$ 27,083	\$ 27,083		
Emergency Management Performance Grant	97.067	N/A	<u>8,984</u>	<u>8,984</u>		
TOTAL U.S DEPARTMENT OF HOMELAND SECURITY			<u>1,324,349</u>	<u>1,324,349</u>		
TOTAL FEDERAL FINANCIAL ASSISTANCE			<u>\$ 4,654,513</u>	<u>\$ 4,654,513</u>		

(a) Denotes program tested as "major program".

City of Ann Arbor, Michigan

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2006

**NOTE A: BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of the City of Ann Arbor, Michigan and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements, which are reconciled in Note B.

**NOTE B: RECONCILIATION TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

The following reconciles the Federal revenues reported in the June 30, 2006 basic financial statements to the expenditures of the City administered Federal programs reported on the Schedule of Expenditures of Federal Awards:

	<u>Federal/State Revenue</u>	<u>Adjustments</u>	<u>Federal Expenditures</u>
PRIMARY GOVERNMENT			
General Fund	\$ 2,952	\$ -	\$ 2,952
Open Space and Parkland Preservation Millage Fund	190,642	-	190,642
Nonmajor governmental funds	<u>3,869,043</u>	<u>-</u>	<u>3,869,043</u>
TOTAL PRIMARY GOVERNMENT	4,062,637	-0-	4,062,637
OTHER			
Equipment grants	<u>-</u>	<u>591,876<sup>(1)</sup></u>	<u>591,876</u>
	<u>\$ 4,062,637</u>	<u>\$ 591,876</u>	<u>\$ 4,654,513</u>

- (1) The adjustment relates to grants of equipment that are not recorded as revenues in governmental funds since the transactions do not involve the receipt or disbursement of financial resources. The value of the equipment received was recognized in the Schedule of Expenditures of Federal Awards as of June 30, 2006 as required by the grantor agencies.

City of Ann Arbor

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
PROVIDED TO SUBRECIPIENTS

Year Ended June 30, 2006

<u>Program Title/ Subrecipient (School District)</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Program or Award Amount</u>	<u>(Memo Only) Prior Years' Expenditures</u>
Community Development Block Grants 2005-06	14.228			
Avalon Housing		B-05-MC-26-0001	\$ 75,000	\$ -
Child Care Network		B-05-MC-26-0001	170,000	-
Food Gatherers		B-05-MC-26-0001	100,000	-
Legal Services of South Central Michigan		B-05-MC-26-0001	51,000	-
Community Housing Alternatives		B-05-MC-26-0001	35,721	-
			<u>\$ 431,721</u>	<u>\$ -0-</u>
HOME Investment Partnerships Program 2005-06	14.239			
Community Housing Alternatives		M-05-MC260201	\$ 22,176	\$ -
Washtenaw Affordable Housing		M-05-MC260201	282,000	-
			<u>\$ 304,176</u>	<u>\$ -0-</u>

<u>Balance July 1, 2005</u>			<u>Balance June 30, 2006</u>
<u>Due From/(To) Subrecipient</u>	<u>Cash Transferred to Subrecipient</u>	<u>Subrecipient Expenditures</u>	<u>Due From/(To) Subrecipient</u>
\$ -	\$ 75,000	\$ 75,000	\$ -0-
-	170,000	170,000	-0-
-	100,000	100,000	-0-
-	51,000	51,000	-0-
-	35,721	35,721	-0-
<u>\$ -0-</u>	<u>\$ 431,721</u>	<u>\$ 431,721</u>	<u>\$ -0-</u>
\$ -	\$ 22,176	\$ 22,176	\$ -0-
-	282,000	282,000	-0-
<u>\$ -0-</u>	<u>\$ 304,176</u>	<u>\$ 304,176</u>	<u>\$ -0-</u>

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Honorable Mayor and  
Members of the City Council  
City of Ann Arbor  
Ann Arbor, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the aggregate discretely presented component units, and the aggregate remaining fund information of the City of Ann Arbor, Michigan as of and for the year ended June 30, 2006, and have issued our report thereon dated October 30, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Ann Arbor's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Ann Arbor's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2006-1, 2006-2, and 2006-3.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider items 2006-1, 2006-2, and 2006-3 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Ann Arbor's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

We noted certain matters that we have reported to management and the City Council of the City of Ann Arbor, Michigan in a separate letter dated October 30, 2006.

This report is intended solely for the information and use of management, the Mayor, and the members of the City Council of the City of Ann Arbor, the pass-through grantors, and the Federal awarding agencies and is not intended to be, and should not be, used by anyone other than these specified parties.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

October 30, 2006



City of Ann Arbor

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2006

**Section I - Summary of Auditor's Results**

***Financial Statements***

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified?   X   Yes        No

Reportable condition(s) identified that are not considered to be material weakness(es)?        Yes   X   None reported

Noncompliance material to financial statements noted?        Yes   X   No

***Federal Awards***

Internal control over major programs:

Material weakness(es) identified?   X   Yes        No

Reportable condition(s) identified that are not considered to be material weakness(es)?        Yes   X   None reported

Type of auditor's report issued on compliance for major programs: Qualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?   X   Yes        No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.239	HOME Investment Partnerships
97.004	State Domestic Preparedness Equipment Support

Dollar threshold used to distinguish between Type A and Type B programs: \$ 300,000

Auditee qualified as low-risk auditee?        Yes   X   No

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2006

Section II - Financial Statement Findings

2006-1 USE OF CITY CREDIT CARDS

Criteria: Compliance with City administrative policy. City administrative policy #512 provides (among other things) that documentation be maintained for all purchases, that purchases be made only for official City business, that meals, office supplies, and travel expenses not be incurred (except under a departure from policy ordered by the City Administrator), and that use of the City credit card does not exempt the user from compliance with Federal or State regulations as well as City ordinances, policies and procedures.

Condition: During our testing of transactions related to the use of purchasing cards it was determined that the City did not comply with established administrative policy and financial management procedures. It was noted that:

- Supporting documentation was not provided for several of the transactions tested.
- None of the transactions sampled contained any explanation that would allow a user to determine that the purchase was made for official City business.
- There are individuals who hold unrestricted cards but the approval for those cards was not given by the City Administrator. Approval was given by the Chief Financial Officer. Purchases were made for items not otherwise allowed under the policy on one of these cards we reviewed.
- Instances were noted where purchases were made using the City credit cards (meals, recognition functions) that violate Michigan State law or Attorney General Opinions as compiled in Michigan Department of Treasury's document "Determining Lawful Expenditures".

Context: This finding was noted during testing of transactions related to credit card usage.

Recommendation: We recommend the City take steps to ensure that supporting documentation is retained for all credit card transactions, including documentation of the business purpose of all charges. Additionally, unrestricted cards should only be granted as ordered by the City Administrator. Unlimited cards currently in place that were not properly approved should be revoked or approved by the City Administrator in writing. We further recommend that the cards be used only for lawful expenditures allowed by the State of Michigan.

Corrective Action Response: Management is changing the purchasing card policy to require users to send documentation of transactions to Finance on a monthly basis, including the business purpose of the transaction, so that all documentation can be centrally maintained. Management will also formally document the City Administrator's designation of the Chief Financial Officer as the credit card administrator. With respect to purchasing cards being used for recognition, management believes that reward and recognition of employee contributions are important in the present environment where the City asks employees to do more with less. The recognition events are a key part of the City's efforts to motivate employees. Many other municipalities in the State, similar to the private sector, have established recognition programs. Management will develop a funding strategy for these events that comply with the established requirements.

2006-2 UNLAWFUL EXPENDITURES

Criteria: Guidance concerning lawful expenditures is given by the Michigan Department of Treasury in a document called "Determining Lawful Expenditures" that is available on their website. Specifically disallowed are expenditures for meals (with some exceptions) and employee recognition.

Condition: Numerous instances of meals being purchased and employee recognition being provided were noted. Each department of the City has a budget each year for employee recognition.

Context: This finding was noted during testing of transactions related to credit card usage, inquiry of management, and observation of employee recognition events while the audit was being conducted.

Recommendation: We recommend that all expenditures that do not have a documented public purpose be discontinued.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2006

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**Section II - Financial Statement Findings (continued)**

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**2006-2 UNLAWFUL EXPENDITURES - CONTINUED**

Corrective Action Response: Management is changing administrative policy to require the appropriate documentation for meals purchased using City funds. Finance will also monitor and test transactions for compliance with the revised policy. With respect to employee recognition events, as stated in management's response to comment 2006-1, management is committed to employee recognition and will be developing a funding strategy to comply with State law.

**2006-3 REIMBURSEMENT OF EMPLOYEE INCOME TAXES ON FRINGE BENEFITS**

Criteria: Compliance with a non-union employee contract.

Condition: A City employee was reimbursed for income taxes that were incurred as a result of certain fringe benefits provided under that employee's contract with the City. The employment contract does not specify, however, that the employee was entitled to reimbursement of income taxes incurred.

Context: This finding was noted during testing of transactions related to payments made and compliance with employment agreements for certain key management employees.

Recommendation: We recommend that either the applicable employee's contract be amended to allow these reimbursements or steps be taken to ensure that similar payments do not take place in the future.

Corrective Action Response: Management is currently evaluating internal changes to address this situation.

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**Section III - Federal Award Findings and Questioned Costs**

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**2006-4 SUPPORTING DOCUMENTATION FOR EXPENDITURES**

State Domestic Preparedness Equipment Support Program Passed through the Michigan State Police - CFDA 97.004; No grant number specified by grantor; Grant period FY 2005-06.

Criteria: Compliance with City financial management procedures.

Condition: During our testing of disbursements related to equipment purchases for the above noted grant it was determined that the City did not comply with established financial management procedures (i.e., payment made only from original invoices). Nine (9) of the thirty-five (35) invoices tested for the grant were not paid from original invoices; eight (8) were faxed and one (1) was hand-written.

Questioned costs: None

Context: This finding was noted during testing of transactions related to testing the major Federal programs.

Recommendation: We recommend the City finance department work with program management personnel to ensure that appropriate documentation is provided for future grant expenditures.

Corrective Action Response: Management will ensure that all equipment purchases for grant related expenditures will be paid from original invoices only.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year Ended June 30, 2006

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**Section III - Federal Award Findings and Questioned Costs - Continued**

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**2006-5 HOUSING QUALITY INSPECTIONS**

HOME Investment Partnerships Program (Direct Program) - CFDA 14.239; Grant No. M-05-MC260201; Grant period FY 2005-06.

Criteria: Special Tests and Provisions in accordance with OMB Circular A-133 2006 Compliance Supplement. During the period of affordability for HOME assisted rental housing, the participating jurisdiction must perform on-site inspections to determine compliance with property standards and verify the information submitted by the owners no less than: (a) every three years for projects containing 1 to 4 units, (b) every two years for projects containing 5 to 25 units, and (c) every year for projects containing 26 or more units.

Condition: During our review of the process related to housing quality inspections for the above noted grant it was determined that the City did not provide adequate inspection procedures for some of the applicable rental properties. It was noted that fifteen (15) of the thirty-four (34) applicable rental properties had not been inspected in a timely manner consistent with the above listed requirements.

Questioned costs: None

Context: This finding was noted during compliance testing related to the major Federal programs.

Recommendation: We recommend the City implement formal written procedures related to housing quality inspections and then periodically monitor compliance with the procedures. These written procedures should include requirements for on-site inspections in accordance with the Compliance Supplement.

Corrective Action Response: We agree with the comment, management will ensure the supervisory staff will make sure that all inspections comply with documented procedures and in accordance with the Compliance Supplement.

**2006-6 PROCUREMENT, SUSPENSION AND DEBARMENT**

HOME Investment Partnerships Program (Direct Program) - CFDA 14.239; Grant No. M-05-MC260201; Grant period FY 2005-06.

Criteria: Suspension and debarment verification in accordance with OMB Circular A-133. The City is required to perform verification procedures to determine if parties are listed as suspended or debarred from entering into Federally funded contracts before entering into a "covered transaction" with that party. A covered transaction is defined as a procurement transaction exceeding \$100,000 or grants to subrecipients in any amount. Acceptable verification procedures include checking the Excluded Parties List System (EPLS) maintained by the U.S. General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transaction with the entity. The EPLS may be accessed online at <http://epls.arnet.gov>.

Condition: It was determined that the City did not provide the required verification of whether subrecipients had been suspended or debarred from entering into Federally funded contracts. It was also noted that, though no covered transactions were entered into during the year, no procedures were in place to verify that procurement transactions were not being entered into with parties that had been suspended or debarred.

Questioned costs: None

Context: This finding was noted during testing procedures related to testing the major Federal programs.

Recommendation: We recommend the City implement formal written procedures related to verification of suspended or debarred status for covered transactions then periodically monitor compliance with those procedures.

City of Ann Arbor

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year Ended June 30, 2006

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**Section III - Federal Award Findings and Questioned Costs - Continued**

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**2006-6 PROCUREMENT, SUSPENSION AND DEBARMENT - CONTINUED**

Corrective Action Response: We agree with the comment, management will amend our contract language to ensure that subrecipients certify that they are not listed as suspended or debarred from entering into a Federally funded contract.

City of Ann Arbor

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended June 30, 2006

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**Federal Award Findings and Questioned Costs**

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**2005-1 HOME INVESTMENT PARTNERSHIPS – ACCOUNTING AND REPORTING**

In the prior year it was reported that the HOME Investment Partnerships Program had advanced grant funds to a certain subrecipient in advance of expenditures actually being incurred. This was reported as a violation of Federal cash management compliance requirements under OMB Circular A-133. Funds in excess of applicable expenditures were recorded as accounts receivable as of June 30, 2005 and were received during the fiscal year ended June 30, 2006. This finding is considered to be resolved.

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MANAGEMENT LETTER

To the Honorable Mayor and  
Members of the City Council  
City of Ann Arbor  
Ann Arbor, Michigan

As you know, we have recently completed our audit of the records of the City of Ann Arbor, Michigan as of and for the year ended June 30, 2006. In connection with the audit, we feel that certain changes in your accounting and administrative procedures would be helpful in improving management's control and the operational efficiency of the accounting and administrative functions. These suggestions are a result of our evaluation of the internal control and our discussions with management.

1. The City should consider adopting additional administrative policies and procedures.

Based on our discussions with management, we noted that the City has not formally adopted written procedures and policies for several areas of operation. Documenting specific policies and procedures allows employees to have a clearer understanding of management's expectations. It also allows management to have greater visibility over those areas for which they are responsible. Specifically, we suggest that the City develop, formally adopt, and implement written procedures and policies in the following areas:

- a. Fraud risk management program - We suggest that the City develop and formally implement a fraud risk management program that is appropriate to the size and complexity of the organization. Such a fraud risk management program may involve active searching for fraudulent transactions through the use of techniques such as data mining, but should also inform management and employees as to the nature of fraud and actions expected to be taken if fraud is suspected. This would include publishing a definition of fraud, a statement that fraud will not be tolerated within the organization, and instructions for reporting fraud within the chain of command.
- b. Disaster recovery plan - We suggest the City adopt a disaster recovery plan. The plan should identify areas of operation that are critical to the City and detail how the City would continue to operate in the absence of those critical areas of operation.
- c. Code of conduct - The City has in place a code of conduct including a policy on conflicts of interest. The code should include a requirement that key employees and Council members periodically make a declaration of compliance with the code, particularly with respect to conflicts of interest.
- d. Personnel policy - The City has a comprehensive set of personnel policies currently in place. We suggest the City review those policies and consider adopting amendments to address the issues of background checks on all potential employees in the accounting and information technology areas, and a requirement of mandatory vacations for employees in positions of financial trust with those duties performed by another employee during that absence.

2. The City should monitor and amend budgets when necessary.

As noted in the annual financial statements, some of the budgeted activities of the City exceeded the amounts appropriated. The variances noted were in the General Fund and two (2) Special Revenue Funds.

The Michigan Public Act 621 of 1978, as amended, provides that the City shall not incur expenditures in excess of the amounts appropriated.

We suggest the City monitor expenditures against the adopted budget on a periodic basis and appropriate budget amendments be adopted by Council as needed.

3. The City should evaluate policies and procedures with respect to use of City credit cards.

As noted in our communication of reportable conditions, we noted instances of non-compliance with City policy and established procedures. As part of our audit procedures in this area, we also noted areas in which we believe that the City could benefit from changes in procedures and updates to the existing policy.

- a. We suggest that the credit card policy be updated to require that documentation of all transactions be submitted to the Finance Department each month. As part of this, users should be required to document the business purpose of all transactions as well as documenting attendees at events for which food was purchased in order to establish lawfulness of the transaction.
- b. We suggest that departures from the credit card policy be documented more formally. Currently, certain credit card users have been granted unlimited purposes for which the card may be used and also credit limits up to \$10,000. Approvals for these departures were granted through emails in which the request was made and approval granted. Improved documentation for this approval would include a memo that lists the specific departure from policy and reasons that it is necessary. The memo should be signed by the City Administrator and retained by the credit card administrator.
- c. We suggest that departures from the credit card policy be exercised only for their intended use. Currently, certain public safety credit card users have been granted unlimited purposes and higher credit limits for use in a "serious emergency and/or disaster". We have noted, however, usage of these cards for items outside the established policy for which a "serious emergency and/or disaster" situation does not appear to exist.
- d. We suggest that any designation of authority to order deviations from City Administrative policy be adopted as an amendment to the current administrative policy manual. Under current City administrative policy, departures from those policies may be granted only as ordered by the City Administrator.

4. The City should review deposits held and determine ultimate disposition of the funds.

The City currently holds performance deposits and tree escrow deposits that have been collected as security for satisfactory completion of certain development projects. Currently these amounts total approximately \$1.3 million and are recorded as cash and liabilities of the General Fund. During our review of documentation for these deposits, we noted that some of the performance deposits go back as far as the 1980's and some of the tree escrow amounts go back as far as 1997. A similar issue was noted and reported in the prior year's audit comments.

We suggest that the City review these deposits and take steps to return the funds to the rightful owners, escheat the funds to the State under the unclaimed property laws, or remit the amounts to the City due to unsatisfactory outcome of the related project.

5. The City should continue to evaluate controls and procedures for utility billing and revenue collections.

Prior to our appointment as auditors for the City, we were engaged to assess internal controls over revenue administration. As part of that engagement we provided our report in which we listed comments and recommendations we considered to be relevant to those processes. Because of our awareness of these issues we determined it was necessary to follow up on certain comments that have an effect on internal controls which are material to the financial statements as part of the audit. While the City has made substantial progress toward implementing our original recommendations, there are certain items that have not been completely addressed or that are part of ongoing projects.



- a. We suggest that an interface between the City's utility billing and general ledger systems be developed. Revenue and receivables recorded in the City's general ledger from the utility billing system are currently being done by manual journal entries. These journal entries are also not being performed on a timely basis (no revenue was recorded until several months into the fiscal year).
- b. We suggest that the process used to prepare journal entries to record utility billing activity in the general ledger be more fully documented. The process is very complex and such documentation would be useful in communicating the process so that it might more easily be automated or streamlined.
- c. We suggest that a daily sequence of prenumbered permit numbers issued in the Planning and Development office be reconciled to cash received as part of the daily closing process. During our audit procedures at this department, we noted that for all four (4) days tested the total amount collected for permits did not equal the amount that was deposited at the Customer Services Center. The amounts of the differences were not material, but the permits issued should be routinely reconciled to daily deposits.

6. The City should perform an inventory of capital assets and review for potentially impaired assets.

It has been the City's past practice to perform an inventory of its capital assets every three (3) years. However, the last inventory (exclusive of street infrastructure) was performed in 1998. Locating and physically verifying the existence of assets that the City has purchased is an important internal control and demonstration of proper stewardship of public funds.

In addition to this, the City has been receiving grants from the Department of Homeland Security for the purchase of certain public safety equipment since fiscal year 2004/05. Under Office of Management and Budget (OMB) Circular A-110, equipment records for assets purchased under Federal grants must be maintained and a physical inventory of these assets must be taken every two (2) years and reconciled to the equipment records. The City will be required to physically inventory assets purchased under these grants for the fiscal year 2006-07.

Finally, effective for the City's fiscal year ended June 30, 2006 is Governmental Accounting Standards Board Statement Number 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries* (GASB 42). GASB 42 requires capital assets that have been impaired (an impairment is defined as a significant, unexpected decline in the service utility of a capital asset) to be identified and, under certain circumstances, potentially be de-valued in the government-wide financial statements. We inquired of management as to any material asset impairments existing as of June 30, 2006 and were informed that there were none. However, as part of a physical inventory of capital assets, a true assessment that considers potential asset impairments could be carried out.

We suggest that the City undertake a physical inventory of its capital assets at the soonest date practical. We would like to remind the City that capital assets purchased under the Homeland Security grants must be inventoried before June 30, 2007.

These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in our audit of the basic financial statements, and this report does not affect our report on the financial statements dated October 30, 2006.

This report is intended solely for the information of management, the Mayor, and members of the City Council of the City of Ann Arbor and is not intended to be, and should not be, used by anyone other than these specified parties.

We wish to express our appreciation for the courtesy and cooperation extended to us during our audit. We are available to discuss this suggestion with you and to provide assistance in the implementation of improvements.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

October 30, 2006